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United Nations Industrial Development Organization

Meeting of High-level Experts on
Africa's External Debt
in Respect of the Industrial Sector*

Vienna, Austria, 14 - 17 May 1985

PROVISIONAL AGENDA

(1) Opening of the meeting

(2) Organization of the meeting

(3) General discussion on:

(a) Africa's foreign exchange expenditures on imports of industrial goods and services

(b) The flow of external resources to major industrial investment projects

(c) The performance of the African economy and the industrial sector in the light of (a) and (b) above.

(4) Formulation of conclusions and recommendations for the OAU Summit

(5) Adoption of the report, conclusions and recommendations

(6) Closure of the meeting

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* The meeting is organized in co-operation with the Organization of African Unity (OAU) and the Economic Commission for Africa (ECA).

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United Nations Industrial Development Organization

Meeting of High-Level Experts
on Africa's External Debt in Respect of
the Industrial Sector

Vienna, Austria, 14 - 17 May 1985

INDUSTRIAL DEVELOPMENT TRENDS AND POLICY OPTIONS *

Prepared by

the UNIDO Secretariat

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C O N T E N T S

Chapter	Page
INTRODUCTION	1
PART ONE: AGGREGATE TRENDS	2
1.1 Structural change in industrial production	2
1.2 Manufacturing exports	6
1.3 Import dependence	9
1.4 The structure of African debt	12
1.5 The structure of ODA	22
PART TWO: THE ROLE OF MANUFACTURING IN AFRICAN RECOVERY	26
PART THREE: MANAGING INDUSTRIAL DEBT	32
3.1 Short-term policy options	33
3.2 Medium-term policies	35
PART FOUR: CONCLUSION	40

LIST OF TABLES

1. Growth of MVA in Africa: selected years

2. Country distribution and share in total activity of MVA: Africa 1973 and 1981

3. Summary of data on import content of apparent consumption of manufactured commodities in 40 African countries 1972-1974 and 1979-1981

4. Sub-Saharan Africa: composition of debt 1972-1983

5. Sub-Saharan Africa: average interest rates on international borrowing 1972-1983.

6. Basic debt indicators for African and selected non-African developing countries 1982

7. Official commitments to industry in sub-Saharan Africa 1978-1982

8. Estimated net flow of foreign finance to the African manufacturing sector 1978-1983

9. Products with values of the revealed comparative advantage index 1 for five African countries 1976-1978

INTRODUCTION

The pace of African industrial development has slowed perceptibly during the past decade. The growth rate of MVA per capita in Africa dropped from 4.5 per cent in 1963-73 to about 2 per cent during the period 1974-84 [1/]. The industrial sector has experienced increasing difficulties reflecting the general deterioration in the African economies and a worsening international environment. This paper attempts to assess the major changes in African industrial structures over the recent past with a view to identifying relevant options available to Africa's policy makers for the revitalization of the industrial sector. Special attention is focused on the implications of Africa's growing debt burden on the prospects of industrial development in the continent.

The paper is divided into three parts. The first part presents aggregate trends in industrial production and trade, in the structure of African debt and in the structure of concessional finance available to industry. It is also to provide a basis for assessing the vulnerability of established industrial structures in Africa to external shocks. The major gap of this section is the lack of accurate estimates of industry's share in aggregate African debt - this shortcoming can only be removed by detailed research on this topic [2/]. The second part examines the case for industrial restructuring in Africa - specifically, it takes issue with the view that a halt in the African industrialization process is inevitable, given the current economic crisis. Finally, part three examines both short- and medium-term policy options for reducing the vulnerability of African industry and for increasing its capacity to generate foreign exchange earnings.

1/ Unless otherwise indicated, all figures are from Africa in Figures UNIDO/IS.517 (Feb. 1985)

2/ A proposal in this regard is made in:"External Debt and the Industrial Sector in Africa: Outline of an Approach" (in preparation).

PART ONE: AGGREGATE TRENDS

1.1 Structural change in industrial production

During the period 1963-82 growth rates in African manufacturing have generally not lagged behind those in other developing countries. Thus African MVA grew at an annual average rate of 7.3 per cent during 1963-73, and 5.4 per cent during 1973-81. The World Bank has estimated that MVA growth rates in all low income developing economies (excluding India and China) were 6.7 per cent during the 1960s and 3.2 per cent during the 1970s. The MVA in middle income developing countries grew at the rates of 7.3 per cent and 5.3 per cent respectively during these periods 3/. While direct comparability between the UNIDO and World Bank estimates is of course limited due to differences in time periods and in price indices employed, nevertheless the African manufacturing growth experience does not appear unusual.

Three important differences somewhat concealed by these figures should, however, be noted. First, the manufacturing sector in most African countries is in both absolute and relative terms significantly smaller than in many other developing countries 4/ - the smallness of the African industrial base is partially reflected in the relatively high growth rates obtained. Secondly, industrial performance during the last four years has deteriorated very sharply in Africa relative to other developing countries. Thirdly, there are unusually wide variations in the growth performance of national manufacturing sectors.

Table 1 summarizes the growth record of the African countries over 1963-1973 and 1973-1981. During 1973-1981, 22 of the 49 countries for which data is available experienced negative rates of growth of MVA per capita. During 1963-1973 only two countries had negative growth rates. The tendency of a contraction in manufacturing industry as a whole is also reflected in the

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3/ World Bank: World Development Report 1984 p.220-221.

4/ The share of MVA in GDP of African low income countries was about 8 per cent against a group average of 14 per cent in 1982. The average share for middle income African countries was 13 per cent against a group average of 20 per cent, World Development Report 1984 p.222-223.

fact that for 18 of the 49 countries included in Table 1, the share of MVA in GDP declined between 1973 and 1981. In three countries - the Gambia, Sudan and Tanzania - the share of MVA in GDP fell by over 50 per cent during the period 1973-1981.

Declining growth has been accompanied by increased industrial concentration in the region. As Table 2 shows, the share of the top four African countries in continental MVA increased from 44.6 per cent in 1973 to 55.6 per cent in 1981 - their share of Africa's population in 1981 was about 35 per cent. The share of the bottom four fell from 0.15 per cent to 0.06 per cent. Thirty-one countries experienced a decline in their share of continental MVA. The share of ten countries in continental MVA was more than halved, while two countries doubled their share. The share of the bottom 20 countries with a population share of about 12 per cent in the whole of Africa is about 4 per cent as far as the distribution of MVA is concerned. Most of these countries have an MVA of less than $100 million each. In at least seven African countries, the manufacturing sector is almost non-existent; it accounts for less than 5 per cent of monetized GDP. Its share is likely to be significantly smaller if account can be taken of the subsistence sector within the national economy.

The high degree of industrial concentration is also reflected in the product mix of African manufacturing. Estimates of the inter-branch distribution of MVA in nine leading African countries (Egypt, Ethiopia, Kenya, Madagascar, Tunisia, Tanzania, Zaire, Zambia and Zimbabwe) show that the share of food products and textiles fell from 52.2 per cent in 1973 to 44.2 per cent in 1980. The share of consumer non-durables was, however, still over 60 per cent in the early 1980s, as compared to almost 75 per cent in 1973. The share of capital goods has doubled over this period. Capital goods - mainly metal products and assembled transport equipment - currently account for about 20 per cent of MVA. In 1973 the intermediate industrial branches (rubber products, other chemicals and non-metallic mineral products) had the highest rates of productivity (measured in terms of the value added per employee ratio). This pattern was broadly maintained in the early 1980s, but productivity in some consumer goods industries - particularly food products - has also increased. Association between labour productivity and the non-wage value added ratio is positive but relatively low by international standards. In the case of some African economies (such as Kenya), association between the

TABLE 1

GROWTH OF MANUFACTURING VALUE ADDED, SELECTED PERIODS AND YEARS
(AT CONSTANT 1975 PRICES)

TABLEAU 1

CROISSANCE DE LA VALEUR AJOUTEE MANUFACTURIERE
(EN PRIX CONSTANTS DE 1975)

Country or area	Total MVA VAM totale		Per capita MVA VAM par habitant				Pays ou zone
	Growth rates - Taux de croissance (percentage) (pourcentage)				Value - Valeur (dollars)		
	1963-1973	1973-1981	1963-1973	1973-1981	1973	1981	
Africa	7.3	5.9	4.5	2.9	38	46	Afrique
Algeria	12.8	7.0	9.7	3.5	75	94	Algérie
Angola	10.2	-10.0	8.3	-12.2	51	15	Angola
Benin	6.0	-4.2	3.2	-7.0	14	10	Bénin
Botswana	6.2	17.3	3.9	14.0	24	88	Botswana
Burkina-Faso	18.3	4.1	15.7	1.5	17	18	Burkina-Faso
Burundi	13.8	5.0	11.9	2.8	12	15	Burundi
Cameroon	2.5	6.4	0.6	4.0	40	55	Cameroun
Cape Verde	9.0	3.2	6.2	1.4	15	17	Cap-Vert
Central African Republic	6.6	1.5	4.5	-0.7	26	22	République centrafricaine
Chad	5.4	-4.6	3.4	-6.5	15	9	Tchad
Comoros	7.2	-5.1	4.4	-8.0	17	11	Comores
Congo	0.3	1.7	-2.0	-0.9	45	38	Congo
Egypt	3.3	8.2	0.9	5.5	57	87	Egypte
Equatorial Guinea	5.1	-16.1	3.1	-18.0	20	5	Guinée équatoriale
Ethiopia	8.2	3.6	5.6	1.6	11	12	Ethiopie
Gabon	10.9	14.3	9.9	12.8	90	222	Gabon
Gambia	3.5	-12.0	0.3	-14.5	20	6	Gambie
Ghana	6.9	-0.5	4.4	-3.6	67	50	Ghana
Guinea	3.3	2.6	1.1	0.1	11	10	Guinée
Guinea-Bissau	8.4	3.4	8.2	1.6	3	3	Guinée-Bissau
Ivory Coast	10.7	8.7	5.5	4.9	70	100	Côte d'Ivoire
Kenya	8.6	6.8	4.9	2.7	29	34	Kenya
Lesotho	34.3	3.8	31.4	1.4	8	9	Lesotho
Liberia	12.8	2.6	9.1	-0.9	20	19	Libéria
Libyan Arab Jamahiriya	13.6	16.3	9.1	11.7	78	155	Jamahiriya arabe libyenne
Madagascar	9.0	0.0	6.5	-2.5	29	21	Madagascar
Malawi	14.9	6.4	11.7	3.1	15	18	Malawi
Mali	4.8	3.8	2.3	1.1	9	9	Mali
Mauritania	5.1	6.8	2.4	3.9	14	18	Mauritanie
Mauritius	2.8	9.5	0.9	7.8	92	179	Maurice
Morocco	5.0	7.9	2.2	4.6	82	108	Maroc

TABLE 1 GROWTH OF MANUFACTURING VALUE ADDED, SELECTED PERIODS AND YEARS (AT CONSTANT 1975 PRICES)

TABLEAU 1 CROISSANCE DE LA VALEUR AJOUTEE MANUFACTURIERE (EN PRIX CONSTANTS DE 1975)

CONTINUED SUITE

Country or area	Total MVA VAM totale		Per capita MVA VAM par habitant				Pays ou zone
	Growth rates - Taux de croissance (percentage) (pourcentage)				Value - Valeur (dollars)		
	1963-1973	1973-1981	1963-1973	1973-1981	1973	1981	
Mozambique	13.6	-6.6	11.1	-9.0	48	23	Mozambique
Namibia	9.6	4.7	6.8	1.8	93	107	Namibie
Niger	8.0	3.1	5.0	0.2	16	14	Niger
Nigeria	7.6	12.0	4.4	8.4	28	48	Nigéria
Reunion	-1.9	5.5	-4.2	3.7	98	116	Réunion
Rwanda	15.5	16.1	12.4	12.7	4	20	Rwanda
Senegal	4.2	0.9	0.8	-1.8	49	42	Sénégal
Sierra Leone	4.5	0.2	2.1	-2.3	16	14	Sierra Leone
Somalia	21.5	2.9	19.0	-3.7	15	11	Somalie
Sudan	5.6	-2.2	3.1	-4.8	47	27	Soudan
Swaziland	18.1	11.5	15.6	8.5	91	213	Swaziland
Togo	14.0	-3.9	10.6	-6.5	24	16	Togo
Tunisia	10.0	10.9	7.9	8.3	68	126	Tunisie
Uganda	5.3	-5.8	1.8	-8.6	21	11	Ouganda
United Republic of Tanzania	10.2	-2.8	7.1	-5.7	18	9	République-Unie de Tanzanie
Zaire	12.5	-7.2	10.1	-9.7	15	7	Zaire
Zambia	12.7	-0.7	9.5	-3.8	86	67	Zambie
Zimbabwe	10.9	2.8	7.0	-0.6	138	145	Zimbabwe

two ratios declined substantivelly in 1980 compared to 1973. What is more significant, is the extremely low (not significantly different from zero in many cases) value of the rank correlation coefficient of industries ranked by labour productivity levels and rates of growth of output over the period 1973-1980. The most rapidly growing industrial branches (transport equipment, electrical and non-electrical machinery) did not rank high in terms of the productivity index. Industries with the highest levels of productivity (industrial chemicals, other chemicals, rubber products and food manufactures) grew at moderate rates. Manufacturing growth was fuelled by increased investment of financial resources. It did not occur primarily as a consequence of increased efficient use of existing resources. Investable surplus generated within the industrial sector remained relatively low.

1.2 Manufacturing exports

Relatively low levels of industrial efficiency are also reflected in stagnant export earnings. UNIDO has estimated that Africa's share in world manufacturing exports declined from 0.48 per cent in 1970 to 0.36 per cent in 1980. Over the same period, Africa's share in global manufacturing output increased from 0.73 per cent to 0.97 per cent [5/]: the widening gap between output and export growth rates indicates a gradual worsening of Africa's manufacturing trade performance. For ten of the sixteen countries for which data is available, total exports tended to grow significantly faster than manufacturing exports during the period 1973-1981 - there was therefore a decline in manufacturing's share of total exports in most African countries. Five countries - Egypt, Kenya, Morocco, Tunisia and Zambia - accounted for 83 per cent of African manufacturing exports in 1981 [6/]. In three of these countries, the share of manufacturing in total exports declined over the period 1973 to 1981.

5/ UNIDO, Industry In A Changing World, UN New York, 1983 p.104-105.

6/ Figures are from Africa in Figures, p.152, and do not include estimates for Algeria and Zimbabwe.

TABLE 2

COUNTRY DISTRIBUTION AND SHARE IN TOTAL ECONOMIC ACTIVITY OF MANUFACTURING VALUE ADDED, 1973 AND 1981 (AT CONSTANT 1975 PRICES)

TABLEAU 2

DISTRIBUTION ENTRE PAYS ET PART DANS L'ENSEMBLE DE L'ACTIVITE ECONOMIQUE DE LA VALEUR AJOUTEE MANUFACTURIERE, 1973 ET 1981 (EN PRIX CONSTANTS DE 1975)

Country or area	Contribution to African MVA Part dans la VAM de l'Afrique		Share of MVA in GDP Part de la VAM dans le PIB		Share of MVA in GDP less services Part de la VAM dans le PIB moins les services		Pays ou zone
	Percentage - Pourcentage						
	1973	1981	1973	1981	1973	1981	
Africa	100.00	100.00	9.22	10.72	14.36	18.92	Afrique
Algeria	8.15	8.79	8.34	9.21	13.00	15.73	Algérie
Angola	2.19	0.53	6.94	3.99	11.35	5.77	Angola
Benin	0.30	0.17	7.92	6.65	14.18	11.10	Bénin
Botswana	0.11	0.35	5.31	11.84	8.42	20.13	Botswana
Burkina-Faso	0.72	0.62	13.83	13.86	22.57	23.54	Burkina-Faso
Burundi	0.33	0.31	10.83	11.54	14.26	15.41	Burundi
Cameroon	2.08	2.24	10.16	11.36	21.39	22.75	Cameroun
Cape Verde	0.03	0.03	6.07	6.10	13.32	13.04	Cap-Vert
Central African Republic	0.37	0.24	12.92	13.13	22.40	21.19	République centrafricaine
Chad	0.43	0.19	11.51	7.53	19.17	12.84	Tchad
Comoros	0.04	0.02	7.07	5.34	10.16	8.54	Comores
Congo	0.41	0.29	7.14	7.63	14.16	14.88	Congo
Egypt	14.42	17.77	17.85	17.31	32.41	34.43	Egypte
Equatorial Guinea	0.04	0.01	5.49	5.28	7.83	9.32	Guinée équatoriale
Ethiopia	2.24	1.89	10.73	10.74	15.74	16.72	Ethiopie
Gabon	0.63	1.15	6.21	9.41	7.75	12.67	Gabon
Gambia	0.07	0.02	6.48	2.52	14.14	5.58	Gambie
Ghana	4.58	2.88	12.95	14.09	17.81	21.03	Ghana
Guinea	0.33	0.25	4.37	3.76	6.08	5.65	Guinée
Guinea-Bissau	0.01	0.01	1.37	1.53	2.31	2.63	Guinée-Bissau
Ivory Coast	3.12	3.94	12.97	15.59	29.04	28.21	Côte d'Ivoire
Kenya	2.64	2.76	11.77	13.34	21.56	25.75	Kenya
Lesotho	0.07	0.06	5.69	5.11	12.92	11.24	Lesotho
Liberia	0.22	0.19	4.88	5.63	6.63	8.05	Libéria
Libyan Arab Jamahiriya	1.26	2.28	1.21	3.52	1.47	6.38	Jamahiriya arabe libyenne
Madagascar	1.53	0.91	11.65	10.05	19.65	16.21	Madagascar
Malawi	0.52	0.54	12.23	12.55	17.91	19.39	Malawi
Mali	0.36	0.31	9.66	8.64	20.73	19.91	Mali
Mauritania	0.14	0.14	5.04	6.29	7.82	11.34	Mauritanie
Mauritius	0.57	0.83	13.91	20.43	21.05	35.44	Maurice
Morocco	9.74	10.74	16.89	17.58	31.45	38.67	Maroc

TABLE 2

COUNTRY DISTRIBUTION AND SHARE IN TOTAL ECONOMIC ACTIVITY
OF MANUFACTURING VALUE ADDED, 1973 AND 1981
(AT CONSTANT 1975 PRICES)

TABLEAU 2

DISTRIBUTION ENTRE PAYS ET PART DANS L'ENSEMBLE DE L'ACTIVITE ECONOMIQUE
DE LA VALEUR AJOUTEE MANUFACTURIERE, 1973 ET 1981
(EN PRIX CONSTANTS DE 1975)

CONTINUED

SUITE

Country or area	Contribution to African MVA Part dans la VAM de l'Afrique		Share of MVA in GDP Part de la VAM dans le PIB		Share of MVA in GDP less services Part de la VAM dans le PIB moins les services		Pays ou zone
	Percentage - Pourcentage						
	1973	1981	1973	1981	1973	1981	
Mozambique	3.04	1.19	9.85	7.35	16.97	13.33	Mozambique
Namibia	0.56	0.53	6.43	6.65	10.22	10.55	Namibie
Niger	0.49	0.36	10.61	6.69	16.21	9.45	Niger
Nigeria	12.30	18.31	4.74	8.17	6.70	13.25	Nigéria
Reunion	0.33	0.29	3.86	3.63	15.01	15.52	Réunion
Rwanda	0.12	0.47	3.97	13.45	5.50	19.51	Rwanda
Senegal	1.64	1.15	13.37	13.75	24.20	24.03	Sénégal
Sierra Leone	0.33	0.23	7.17	6.46	12.07	11.89	Sierra Leone
Somalia	0.32	0.26	9.48	9.67	17.01	17.78	Somalie
Sudan	5.16	2.40	15.30	7.83	27.43	18.32	Soudan
Swaziland	0.30	0.58	22.19	23.86	34.75	36.70	Swaziland
Togo	0.37	0.21	9.23	6.87	16.85	15.53	Togo
Tunisia	2.65	3.90	10.24	13.36	19.74	27.33	Tunisie
Uganda	1.62	0.69	7.37	4.29	9.09	5.15	Ouganda
United Republic of Tanzania	1.92	0.83	11.09	5.79	18.34	11.24	République-Unie de Tanzanie
Zaire	2.47	0.97	8.26	6.18	14.90	11.18	Zaire
Zambia	2.89	1.89	18.57	16.93	32.93	32.15	Zambie
Zimbabwe	5.82	5.28	25.10	26.72	42.09	47.06	Zimbabwe

1.3 Import dependence

Stagnant export levels have been accompanied by rising import levels in most African countries - until at least the time when stabilization programmes induced drastic import cutbacks. These cutbacks have had a large negative impact on growth and capacity utilization within African manufacturing due to the high import dependence of many industrial branches.

UNIDO has recently compiled data on the share of domestic production and imports in apparent consumption (defined as domestic production plus imports less exports) for over 100 commodities for over 40 African countries. This data is presented for the time period 1972-74 and 1979-81. The main features of this data are summarized in Table 3 which, however, is incomplete, primarily because it excludes all products in ISIC category 38 (SITC category 7), i.e. metal products, machinery and transport equipment. As shown above, domestic production in precisely these branches grew significantly during 1973-1981: however, since an overwhelmingly large proportion of this production is of an assemblage character, its import content is likely to be high and broadly in line with trends portrayed in Table 3.

Table 3 presents a truly alarming picture of the extent of Africa's import dependence as far as manufacturing industry is concerned. Although these figures refer to national imports, it is clear that an overwhelmingly large proportion of these imports are obtained from outside Africa. Exports of manufactures from African countries are very small - representing less than one per cent of world manufactures export. The only branches, in which the import to apparent consumption ratio is below 25 per cent for the majority of countries for which data is available, are food manufacturing and textiles. Soap is the only chemical product within this category. Two other chemical products (liquified petroleum gas and distillate fuels) have import to apparent consumption ratios below 50 per cent for the majority of African countries. Motor gasoline in 1979-81 may also be regarded as a border line case: 18 of the 41 countries for which data is available had ratios not below 50 per cent.

Table 3. Summary of data on import content of apparent consumption in selected commodities in 40 African countries

Ratio = import to apparent consumption ratio

Commodities in which ratio approaches 100% in all or almost all countries	Commodities in which ratio approaches 100% in most countries	Commodities in which ratio is not below 75% in most countries	Commodities in which ratio is not below 50% in most countries	Commodities in which ratio is not below 25% in most countries	Commodities in which ratio is below 25% in most countries
Wood pulp (72-74)(79-81)	Fish tinned (72-74) (79-81)	Raw sugar (72-74)	Butter (72-74) (79-81)	Cheese (72-74)	**Cheese (79-81)**
Pulp of other fibres (72-74) (79-81)	Malt (72-74)	Malt (79-81)	Distillate fuel (79-81)	Vegetable oil (79-81)	**Margarine (72-74)(79-81)**
Wood pulp sulphate (72-74)	Wood pulp sulphate (79-81)	Cotton yarn (79-81)	Liquefied petroleum gas (72-74)	Flour (72-74)(79-81)	**Vegetable oil (72-74)**
Newsprint (72-74) (79-81)	Other printing paper (72-74) (79-81)	Motor gasoline (79-81)	Cement (72-74 (79-81)	Refined sugar (72-74)	**Raw sugar (79-81)**
Methanol (72-74) (79-81)	Kraft paper (72-74) (79-81)	(Total 4 entries) [a]	(Total 6 entries) [a]	Footwear (79-81)	**Refined sugar (79-81)**
Glycerine (79-81)	Machine-made paper (72-74) (79-81)			Particle board (72-74) (79-81)	**Animal feeds (72-74) (79-81)**
Chlorine (72-74) (79-81)	Glycerine (72-74)			Liquefied petroleum gas (79-81)	**Beer (72-74) (79-81)**
Zinc oxide (72-74) (79-81)	Sulphuric acid (72-74) (79-81)			Cement (72-74) (79-81)	**Soft drinks (72-74) (79-81)**
Titanium oxides (72-74) (79-81)	Nitrogeneous fertilizers (72-74) (79-81)			(Total 11 entries) [a]	**Cigarettes (72-74) (79-81)**
Lead oxides (72-74) (79-81)	Phosphate fertilizers (72-74) (79-81)				**Cotton yarn (72-74)**
Ammonia (72-74) (79-81)	Insecticides, etc. (72-74) (79-81)				**Cotton fabric (72-74) (79-81)**
Caustic soda (72-74) (79-81)	Non-cellulosic staple (79-81)				**Footwear (72-74)**
Soda ash (72-74) (79-81)	Motor gasoline (72-74)				**Soap (72-74) (79-81)**
Hydrogin peroxide (72-74) (79-81)	Kerosene (72-74) (79-81				(Total 13 entries) [a]
Calcium carbide (72-74) (79-81)	Distillate fuel (72-74)				
Dyestuffs (72-74)(79-80)	Lubricating Oil (79-81)				
Vegetable tanning extracts (79-81) (72-74)	Pig iron (72-74)				
Activated carbon (72-74) (79-81)	Wire rods (79-81)				
Potastic fertilizers (72-74) (79-81)	Lead unwrought (72-74)				
Synthetic rubber (72-74) (79-81)	(Total - 30 entries) [a]				
Non-cellulosic staple (72-74)					
Regenerated cellulose (72-74) (79-81)					
Lubricating oil (72-74)					
Angles, shapes, etc. (72-74) (79-81)					
Iron plates, heavy (72-74) (79-81)					
Plates, medium (72-74) (79-81)					
Plates - sheets (72-74) (79-81)					
Tin plate (72-74) (79-81)					
Railway track material (72-74) (79-81)					
Wire, plain (72-74) (79-81)					
Tubes (71-74 (79-81)					
Tubes, welded (72-74 (79-81)					
Copper bars, etc. (72-74) (79-81)					
Copper tubes (72-74) (79-81)					
Aluminium unwrought (72-74) (79-81)					
Aluminium rods (72-74)(79-81)					
Aluminium plates (72-74) (79-81)					
Aluminium tubes (72-74) (79-81)					
Lead unwrought (79-81)					
Zinc unwrought (72-74)(79-81)					
Zinc plates (72-74) (79-81)					
Tin unwrought (72-74) (79-81)					
Tin plates (72-74) (79-81)					
(Total 81 entries) [a]					

Source: UNIDO, Africa in Figures, UNIDO/IS.517, 1985, Table 7.

Note a: Each commodity is counted twice for each time period.

Of all items [7/], 54.7 per cent had import to apparent consumption ratios approaching 100 per cent for all or almost all African countries. For another 30 items (20.3 per cent of the total), the majority of African countries had import ratios approaching 100 per cent. These two categories included virtually the whole range of intermediate industrial inputs (including most chemicals, all mineral processed products and even wood pulp and paper) necessary for the development of an integrated industrial structure. The key issue of course lies in the fact that Africa is rich in both agricultural and mineral resources. Africa has vast potential for the development of manganese, phosphates, iron ore, bauxite, tin, copper and diamond-based industries. Yet exploration and product development in these branches is virtually at a standstill and the region continues to import an increasing proportion of processed mineral intermediate products. Moreover, there would certainly have been ample prospects for increased utilization of intra-industry linkages.

Another feature of African industrial sectors revealed by Table 3 is the surprisingly little change that has taken place in import ratios over the period 1972-74 to 1979-81. Out of the 43 commodities included in category 1 (i.e. with import ratios approaching 100 per cent in almost all countries), as many as 38 remained within it in both 1972-74 and 1979-81. Three products (wood pulp sulphate, non-cellulosic sulphate and lubricating oils) moved down one category and had import ratios approaching 100 per cent in the majority of African countries. Two products (glycerine and unwrought lead) moved up to category 1. By 1981, all African countries had an import ratio of 100 per cent in these commodities.

The picture at the bottom of the list is more complex. Five of the thirteen commodities included in the lowest category (with import ratios below 25 per cent for the majority of countries) have moved; but only three (cheese, raw sugar and refined sugar) have moved in the "right" direction and achieved a lowering of their import to apparent consumption ratios over 1972-81. Movement in the intermediate categories is also limited. Seven products (malt, motor gasoline, distillate fuel, raw sugar, liquid petroleum gas, cheese and refined sugar) out of a total of 23 moved in the "right"

7/ Each commodity is counted twice: once for 1972-74, once for 1979-81.

direction. The overall impression, therefore, must be that the pace of import substitution amd domestic integration of production somewhat slackened during the 1970s and remained largely confined to the food processing branches. Some limited movement is also discernable in terms of petroleum-based products. But no progress whatsoever has been made in terms of the major categories of industrial intermediaries nor in the production of fertilizers. In all fertilizer categories the majority of the African countries continued to have import to apparent conumption ratios of approximately 100 per cent during the 1970s.

It is evident that much of the industrial investment undertaken during the 1970s was insufficiently integrated within the national economy. It was often conceived on a project basis. Linkages between industrial projects - and indeed between industrial development and the development of the economy as a whole - remained weak. This led to the growth of the so-called "white elephant" projects which constitute net drain on foreign exchange. These projects absorb a sizeable proportion of ODA flows, necessitate substantial commercial borrowings and use large volumes of imported inputs. Yet they make little significant contribution to generating foreign exchange within the economy, either directly or indirectly. A re-organization of Africa's major industrial programmes and approaches and of the processes for rehabilitating existing plants is thus an essential prerequisite for reducing the import dependence of the continent and for achieving a reduction in the debt service payments which are a growing burden on the foreign exchange resources of most African countries.

1.4 The structure of African debt

On the face of it, Africa's relatively low aggregate debt of about $96.8 billion [8/] (disbursed public and publicly guaranteed debt only) appears to be manageable as compared with the vast amount of debt owed by Mexico, Brazil and some other big debtor countries. Total African debt accounts for about one-tenth of total Third World external indebtedness. But the figure disguises the severity of the debt burden carried by African developing countries.

8/ World Bank, World Debt Tables 1984/85 p.26-27, 232-235, 240-241, 246-247.

According to an OAU report on African external indebtedness, Africa's total public and publicly guaranteed disbursed debt had increased from $57.5 billion in 1978 to $87.8 billion in 1982 with average annual disbursements of $15.7 billion during the period, and total debt service had increased by about 140 per cent from $5.5 billion in 1978 to $13.3 billion in 1982 [9/]. According to World Bank estimates the debt service burden increased to $14.7 billion in 1983 [10/].

Apart from an alarming rate of increase in Africa's aggregate debt and debt service, what is most disturbing is that the structure of Africa's debt changed considerably over the 1970s. As Table 4 shows, the share of "soft" loans (credit offered in concessionary terms in the form of a long payment period, a generous grace period and very low interest rates), declined from 62.5 per cent of sub-Saharan Africa's total debt in 1972 to 47 per cent in 1983.

In the face of diminished flows of soft loans, a handful of African countries - particularly oil-exporting and mineral-rich countries - resorted to borrowing from private banks. The share of financial markets in sub-Saharan debt went up from 14.5 per cent to 36 per cent over the period 1972-83. Thus, these countries increased their borrowing from the European Money Market from $3.3 billion in 1980 to $8.2 billion in 1981. In 1981, oil-exporting Nigeria, Angola, Gabon and the Congo accounted for 58 per cent of the Euromarket borrowings, while the new oil producers of Cameroon and the Ivory Coast claimed 18 per cent, and Kenya and Zimbabwe shared another 8 per cent [11/].

Meanwhile, most other African countries were left in the lurch and many of them turned to IMF stand-by agreements and extended fund facilities, despite difficult conditions attached to the IMF loans. Worse yet, in 1985,

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9/ OAU, "External Indebtedness of African Countries", STEERING/CTEE Doc.4.b., 11-15 Feb 1985.

10/ World Debt Tables 1984/85, p. 26-27, 232-235, 246-247.

11/ African Business, June 1982, p.71.

Table 4 Sub-Saharan Africa: Composition of Debt 1972-83

	1972	1978	1979	1980	1981	1982	1983	Annual rates of change 72-79	79-83	72-83
Financial markets	1.0	8.2	10.9	12.9	15.2	18.1	20.0	40.0	16.8	32.0
Percent of total	14.5	30.1	32.0	32.2	34.2	36.1	36.2			
Oil importers	0.9	5.8	7.3	8.1	8.9	9.4	9.0	31.6	5.8	23.3
Percent of total	13.5	21.3	21.4	20.2	20.0	18.7	16.3			
Suppliers' credits	1.0	3.4	3.5	3.1	2.9	2.8	2.4	19.1	-8.2	8.9
Percent of total	14.3	12.4	10.2	7.8	6.5	5.6	4.4			
Oil importers	0.8	2.8	2.9	2.3	2.5	2.4	2.1	19.1	-5.0	9.5
Percent of total	11.2	10.3	8.5	5.8	5.6	4.8	3.8			
Bilateral										
Nonconcessional										
DAC	0.3	1.4	2.7	3.7	4.1	4.2	4.9	34.9	14.1	32.1
Percent of total	4.6	5.2	7.9	9.2	9.2	8.4	8.9			
Oil importers	0.2	1.2	2.3	3.2	3.6	3.7	4.3	35.5	15.0	34.6
Percent of total	3.3	4.4	6.8	8.0	8.1	7.4	7.8			
Other	0.0	0.8	1.2	1.5	1.4	1.8	1.8	60.8	10.4	32.3
Percent of total	0.6	2.8	3.6	3.8	3.2	3.6	3.3			
Oil importers	0.0	0.7	1.1	1.4	1.3	1.7	1.3	58.3	5.4	29.7
Percent of total	0.6	2.4	3.2	3.6	2.9	3.4	2.4			
Concessional										
DAC	2.0	4.3	4.5	5.1	5.1	5.5	5.6	12.0	5.3	9.6
Percent of total	28.4	15.8	13.2	12.7	11.5	10.9	10.1			
Other	1.1	3.7	4.6	5.2	6.1	6.5	7.7	22.8	13.4	19.0
Percent of total	15.3	13.6	13.4	12.9	13.7	12.9	14.0			
Oil importers	3.1	6.5	7.5	8.6	9.7	10.4	11.7	14.7	11.4	13.7
Percent of total	43.7	23.8	21.9	21.5	21.9	20.7	21.2			
Multilateral	1.3	5.5	6.8	8.5	9.7	11.3	12.8	26.3	16.8	24.4
Percent of total	18.5	20.0	19.8	21.3	21.8	22.5	23.1			
Oil importers	0.9	4.6	5.7	7.6	8.3	9.7	10.9	30.2	16.6	26.7
Percent of total	12.7	16.8	16.7	19.0	18.6	19.3	19.7			
Total	7.1	27.3	34.2	39.9	44.5	50.2	55.2	25.1	12.6	21.1
Percent of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0			

Source: EPD, all countries in the Debt Reporting System except Cape Verde, Comoros, Djibouti, and Seychelles.

African countries are likely to repay more than they will receive from the IMF. Repayments to the Fund under the so-called "repurchase obligations" are estimated at a total of $700 million 12/.

Another indicator of the debt crisis in Africa is the frequency of debt rescheduling. During the past five years, external debts have been rescheduled over 40 times in Africa 13/ and of 37 official debts rescheduled by the Paris Club between 1975 and October 1983, 26 involved African countries 14/.

For even those African countries with access to loans from private banks, the debt problem, as elsewhere, has been aggravated by the high interest rates of the 1980s and by increasing service costs. As Table 5 shows, the interest rates on public debts escalated from 3.6 per cent in 1970 to 8.2 per cent in 1983 for sub-Saharan Africa; interest rates on private loans increased from 6.7 per cent to 11 per cent over the same period. This means that, with the current high proportion of commercial loans in the total debt outstanding, a 1.5 per cent increase in interest rates would result in additional African interest payments of about $1 billion 15/.

Aggregate African debt belies, however, considerable variations in the severity of the debt burden carried by individual African developing countries. Table 6 reveals some measure of the debt burden carried by different countries in Africa 16/.

12/ African Economic Digest, 4 January 1985, p.2.
13/ OAU, op.cit., p.3
14/ African Research Bulletin, June 15 - July 14, 1984, p.7333.
15/ Ibid.
16/ The following country grouping was made according to World Debt Tables, 1983-1984 edition: low income Africa includes countries with per capita GNP of less than $410 in 1981; middle-income countries with per capita GNP of more than $410 in 1981.

Low-income Africa: Benin, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Madagascar, Malawi, Mali, Niger, Rwanda, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Burkina Faso, Zaire.

Middle-income oil-importing Africa: Botswana, Djibouti, Ivory Coast, Kenya, Lesotho, Liberia, Mauritania, Morocco, Senegal, Seychelles, Swaziland, Zambia, Zimbabwe.

Middle-income oil-exporting Africa: Algeria, Cameroon, Congo, Egypt, Gabon, Nigeria, Tunisa.

Table 5 AVERAGE INTEREST RATES OF LOAN COMMITMENTS

	1970	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Public debt												
Total public debt												
Nominal	3.6	5.5	5.2	5.6	5.4	5.6	6.6	8.0	7.3	10.5	8.5	8.2
Real a/	1.4	-9.9	-15.7	1.4	0.7	-0.3	-3.1	-6.8	-5.0	4.9	6.9	6.2
Total concessional												
Nominal	1.0	1.3	1.7	1.9	1.8	1.8	2.0	1.8	1.7	1.7	1.8	
Total nonconcessional												
Nominal	6.6	8.3	8.1	8.3	7.5	7.8	9.0	10.2	11.0	13.1	11.9	
Real	4.4	-7.1	-12.8	4.1	2.8	1.9	-0.7	-4.6	-1.3	7.5	10.3	
Total private source loans												
Nominal	6.7	8.7	8.7	8.4	7.8	7.8	9.4	11.2	12.4	14.5	12.8	11.0
Real	3.5	-6.7	-12.2	4.2	3.1	1.9	-0.3	-3.6	0.1	8.9	11.2	9.0
Total concessional bilateral												
Nominal	1.0	1.4	1.9	2.2	2.0	2.2	2.6	2.6	2.4	2.4	2.6	
Real a/	-1.2	-15.0	-20.0	-2.0	-2.7	-3.7	-7.1	-12.2	-9.9	-3.2	1.0	
Total official export credits												
Nominal	4.6	5.6	6.6	7.6	6.7	7.9	8.0	7.7	8.3	9.4	10.2	
Real	2.4	-9.8	-14.3	3.4	2.0	2.0	-1.7	-7.1	-4.0	3.8	8.6	
Total multilateral loans												
Nominal	4.4	4.1	3.7	5.0	3.5	4.1	3.4	3.3	3.0	5.3	4.3	5.7 b/
Real	2.2	-11.3	-17.2	0.8	-1.2	-1.8	-6.3	-11.5	-9.3	-0.3	2.7	3.7

Source: EPD, for nominal. Includes all Sub-Saharan African countries in the Debt Reporting System.

a/ Deflated by US WPI.
b/ Average interest rate for all official creditors.

Table 6 : Basic debt indicators for African developing countries and selected non-African developing countries.

LOW-INCOME AFRICA

	Population (millions) mid-1982	GNP per capita US$ 1982	GNP per capita average annual growth % 1960-82	Debt outstanding disbursed (DOD) US m$ 1981	Debt outstanding disbursed (DOD) US m$ 1982	Debt service ratio % 1981	Debt service ratio % 1982	Per capita debt (DOD/population) US$ 1981	Per capita debt (DOD/population) US$ 1982	Debt GNP ratio (DOD/GNP)% 1981	Debt GNP ratio (DOD/GNP)% 1982
Benin	3.7	310	.6	550	556	-	-	149	150	55.7	57.7
Burundi	4.3	280	2.5	160	201	-	-	37	47	16.8	20.4
Cape Verde	.3	350	-	39	61	-	-	130	203	39.8	59.5
Central African Republic	2.4	310	.6	219	222	-	-	91	93	32.3	34.4
Chad	4.6	80	-2.8	226	189	-	-	49	41	57.0	59.0
Comoros	.4	340	.9	53	67	-	-	133	168	47.4	62.2
Ethiopia	32.9	140	1.4	801	875	8.1	-	24	27	18.9	19.6
Gambia	.7	360	2.5	112	134	6.5	-	160	191	55.2	65.1
Ghana	12.2	360	-1.3	1105	1116	6.4	-	91	91	4.0	3.6
Guinea	5.7	310	1.5	1245	1230	-	-	218	216	81.1	77.4
Guinea-Bissau	.8	170	-1.7	108	126	-	-	135	158	82.6	96.3
Madagascar	9.2	320	-.5	1372	1565	-	-	149	170	48.7	55.7
Malawi	6.5	210	2.6	683	692	26.9	22.8	105	106	54.8	48.8
Mali	7.1	180	1.6	734	822	3.8	-	103	116	65.6	79.4
Niger	5.9	310	-1.5	605	603	15.8	11.8	103	102	36.7	40.2
Rwanda	5.5	260	1.7	171	189	1.5	-	31	34	13.5	13.0
Sierra Leone	3.2	390	.9	345	303	24.4	-	108	95	30.9	24.8
Somalia	4.5	290	-.1	867	944	6.1	-	193	210	46.7	78.4
Sudan[1/]	20.2	440	-.4	4806	5094	5.0	-	238	252	47.9	71.2
Tanzania	19.8	280	1.9	1497	1632	-	-	76	82	28.7	30.4
Togo	2.8	340	2.3	850	819	-	-	304	293	98.1	104.5
Uganda	13.5	230	-1.1	540	594	-	-	40	44	5.2	6.8
Upper Volta	6.5	210	1.1	284	335	-	-	44	52	22.6	29.3
Zaire	30.7	190	-.3	4118	4040	-	-	134	132	80.1	78.3
TOTAL	203.4			21490	22409			106	110		

(Table 6 Continued)

MIDDLE-INCOME OIL-IMPORTING AFRICA	Population (millions) mid-1982	GNP per capita US$ 1982	average annual growth % 1960-82	Debt outstanding disbursed (DOD) US m$ 1981	1982	Debt service ratio % 1981	1982	Per capita debt (DOD/population) US$ 1981	1982	Debt GNP ratio (DOD/GNP)% 1981	1982
Botswana	.9	900	6.8	164	209	-	-	182	232	16.9	24.6
Djibouti	.4	-	-	20	40	-	-	50	100	11.1	-
Ivory Coast	8.9	950	2.1	4390	4537	22.7	-	493	510	53.1	63.4
Kenya[1/]	18.1	390	2.8	2252	2402	16.0	-	124	133	34.8	38.4
Lesotho	1.4	510	6.5	99	139	-	-	71	99	13.8	21.6
Liberia	2.0	490	.9	636	641	5.1	-	318	321	68.3	65.7
Mauritania	1.6	470	1.4	826	1001	15.8	11.8	516	626	121.8	146.5
Mauritius	.9	1240	2.1	333	367	9.9	12.4	370	408	30.2	35.0
Morocco	20.3	870	2.6	7969	9030	31.3	-	393	445	52.8	60.4
Senegal	6.0	490	-	945	1329	-	-	158	222	38.8	55.0
Seychelles	-	-	-	34	37	.4	-	340	370	-	-
Swaziland	.7	940	4.2	161	178	3.6	-	230	254	34.0	39.3
Zambia	6.0	640	-.1	2274	2381	23.2	-	379	397	72.0	82.7
Zimbabwe	7.5	850	1.5	880	1221	4.4	-	117	163	13.8	17.6
TOTAL	74.8		-	20983	23512			281	314		
MIDDLE-INCOME OIL-EXPORTING AFRICA [2/]											
Algeria	19.9	2350	3.2	14309	13567	24.8	-	719	682	35.0	32.5
Cameroon	9.3	890	2.6	2021	1912	10.8	-	217	206	28.9	28.8
Congo	1.7	1180	2.7	1133	1370	9.5	-	666	806	68.4	78.3
Egypt	44.3	690	3.6	14250	14935	20.9	-	322	337	56.2	52.4
Gabon	.7	4000	4.4	1044	871	12.6	-	1491	1244	34.2	30.6
Nigeria	90.6	860	3.3	4946	6085	4.7	-	55	67	6.4	8.5
Tunisia	6.7	1390	4.7	3159	3177	13.9	15.4	471	474	37.8	40.0
TOTAL	173.2		-	40862	41917			236	242		

(Table 6 Continued)

MAJOR NON-AFRICAN DEBTOR DEVELOPING COUNTRIES

	Population (millions) mid-1982	GNP per capita US$ 1982	average annual growth % 1960-82	Debt outstanding disbursed (DOD) US m$ 1981	1982	Debt service ratio % 1981	1982	Per capita debt (DOD/population) US$ 1981	1982	Debt GNP ratio (DOD/GNP)% 1981	1982
Argentina	28.4	2520	1.6	10562	15780	18.2	24.5	372	556	8.8	25.9
Brazil	126.8	2240	4.8	44513	47589	33.4	-	351	375	16.2	16.9
Chile	11.5	2210	.6	4495	5239	27.2	18.7	391	456	14.2	23.7
India	717.0	260	1.3	18000	19621	-	-	25	27	10.9	12.1
Indonesia	152.6	580	4.2	15737	18421	8.3	-	103	121	19.1	21.1
Republic of Korea	39.3	1910	6.6	18279	20061	12.4	13.1	465	510	29.4	30.4
Mexico	73.1	2270	3.7	42736	50412	28.2	-	585	690	18.4	32.7
Venezuela	16.7	4140	1.9	11352	12122	12.6	-	680	726	16.7	17.8
TOTAL	1165.4		-	165674	189236			142	162		

Sources: World Bank, World Development Report 1984 and World Debt Tables, 1983-84 Edition.

Notes: 1/ Sudan's per capita income in 1982 rose to $440 from $380 in 1981 and, on the contrary, Kenya's per capita income declined to $390 in 1982 from $420 in 1981 so that Sudan is classified as a middle-income and Kenya as a low-income country in the World Bank Report 1984. However, the groupings of African countries in the three different categories are followed by those in World Debt Tables, 1983-84 Edition.

2/ Libya is not included, because it is classified as a high-income oil exporter (per capita income $8,510 in 1982).

First, a great number of small countries in the low-income group are facing the most critical debt problem. Their per capita GNPs are not only already very low and, worse yet, are declining or remaining virtually at a stand-still, but also the debt/GNP ratio for some of these countries reached alarming proportions: Togo (104.5 per cent), Guinea-Bissau (96.3 per cent), Mali (79.4 per cent), Zaire (78.3 per cent), Somalia (78.4 per cent), Sudan (71.4 per cent). In fact, more than half of the countries in the group exceeded a ratio of 50 per cent. Among middle-income African countries, Mauritania has an exceptionally high debt/GNP ratio of 147 per cent, and not far behind are Zambia (83 per cent), Liberia (68 per cent), Ivory Coast (63 per cent) and Morocco (55 per cent). Meanwhile, most oil-exporting African countries registered a healthy annual growth rate of per capita GNP ranging from 2.6 per cent for Cameroon to 4.7 per cent for Tunisia in the 1960-1982 period and their debt/GNP ratio in 1982 remained relatively low, except for Congo (78 per cent) and Egypt (52 per cent). In sharp contrast, total debt accumulated by nine major debtor countries in Latin America and East Asia combined ($190 billion) in 1982 was more than two-fold larger than the total debt of African developing countries in the same year, but the debt/GNP ratios for all nine countries remained considerably lower than most African countries, ranging from 33 per cent for Mexico to 10 per cent for the Republic of Korea.

The debt service ratio (interest payments and principal repayments as per cent of export earnings) is the most commonly-used barometer for measuring debt difficulties. The debt service ratios for sub-Saharan Africa rose from 4.6 per cent in 1974 to 20.3 per cent in 1983 [17/]. Debt service payments on public and publicly guaranteed loans by sub-Saharan Africa are expected to have increased to 25.1 per cent of export earings by 1985 [18/]. The debt service ratios of the North African countries are much higher - Algeria (36.3 per cent), Egypt (34 per cent), Morocco (38.2 per cent) and Tunisia (22.3 per cent) in 1983. While for most African countries debt repayment magnitudes are lower than for Latin American countries, this does not imply that Africa will

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17/ World Bank Tables, p.27

18/ Krumm, op.cit., Appendix Table 17.

have less painful adjustment problems required by debt-servicing than Latin America. On the contrary, it is likely to be greater, since primary commodities account for more than 80 per cent of the African countries' total exports; this makes it extremely difficult to boost exports to generate extra foreign exchange earnings for debt-servicing. It seems plausible, therefore, that the doubling of Africa's interest payments to export ratios may be equivalent to trebling or even quadrupling of the corresponding service ratio of some of the NICs in terms of the real adjustment difficulties.

Whereas gross capital inflows to Africa have during the past decade generally kept pace with the growing current account deficit, both net borrowing (gross borrowing minus amortization) and net transfer levels have shown a tendency to decline for low income African countries since 1980 - however, net tranfers equalled about 90 per cent of the current account deficit and represented 60 to 80 per cent of gross borrowing by this group in the early 1980s [19/]. For the middle-income oil-importing African countries the net transfer to gross borrowing ratio dropped from 73 per cent in 1979 to 30 per cent in 1982, due to a rapid increase in interest and amortization payments. The situation was even grimmer for oil-exporting African countries. In particular, the condition has deterioriated rapidly since 1980. This, coincided with the softening of oil prices and led to a net resource outflow of $508 million in 1982. Net borrowing (gross borrowing minus amortization) was not even sufficient to meet interest payments alone. The share of net transfer in total borrowing declined drastically from 70 per cent in 1975 to zero in 1981. In recent years, nothing has been left for financing current account deficits after interest and amortization were deducted from gross borrowing and, worse yet, more was needed to service debt. Obviously, this debt-service difficulty stems largely from the active commercial borrowing of these countries in private capital markets in hard terms and conditions.

19/ Estimates of trade and financial flows from IMF International Financial Yearbook 1984 and January 1985 and World Debt Tables 1983-1984

As mentioned earlier, it is not possible at this stage to identify the industrial sector's share of disbursed outstanding debt 20/. It is clear, however, that a decline in net financial transfers can have serious implications for African current manufacturing and for its development process. In many African countries major manufacturing establishments are operating at small fractions of their productive capacity, primarily due to the unavailability of essential imported raw material and capital inputs. They are also starved of investment needed for production restructuring and modernization. Foreign funds can play an important role in the revitalization of industry. But in the face of the present foreign exchange crisis, Africa simply cannot afford to obtain these funds on a commerical basis - those middle-income and oil-exporting countries which did so in the 1970s are the hardest hit by the present foreign exchange shortages - or substantially increased export earnings, at least in the short-run. A growth in concessional finance - particularly ODA flows - is thus of crucial importance for African industry.

1.5 The structure of Official Development Assistance (ODA)

For sub-Saharan Africa (SSA) the total net receipts of ODA from all sources amounted to $7.6 billion in the year 1982/83. This presented 30.0 per cent of all ODA received by developing countries in that year. SSA's share of total ODA has been steadily increasing: it was 25.4 per cent in 1977/78. From that year to 1982/83, total ODA grew at 6.8 per cent per annum, but that to SSA grew at 10.5 per cent. ODA has now assumed considerable significance to many struggling economies of the region. Receipts amounted to no less than 4.3 per cent of the GNP of sub-Saharan Africa in 1982/83. But this is only an average, for some countries the importance is much greater: for the Sahel group (Cape Verde, Gambia, Burkina Faso, Mali, Mauritania, Niger, Senegal and Chad) it was 17 per cent of GNP. For Tanzania it was 12.5 per cent and for Somalia 39.6 per cent.

20/ Estimates of this type can be an important output of the type of research described in the "External Debt and the Industrial Sector in Africa" (forthcoming) and some tentative estimates are presented in Table 8.

To assess the amount of ODA going specifically to the manufacturing sector in SSA, is a difficult task, both because of informational and definational deficiencies. However, Tables 7 and 8 present alternate estimates of manufacturing's share in foreign finance [21/]. Table 7 shows not only the ODA flows as recorded in the OECD Creditor Reporting System, but also the levels of other non-ODA official flows to the manufacturing sector in SSA. It thus included official loans on commercial terms such as those by the World Bank, the African Development Bank, etc.

The level of total ODA grants and loans can be seen to have fluctuated considerably and not to have exhibited any trend of growth. Having risen in 1979 and 1980, they then fell back in 1981 to a level below that of 1978. A sharp increase in 1982 was then followed by a fairly sharp decrease, to leave ODA to the manufacturing sector in 1983 at a level scarcely above that in 1979.

With respect to the trends indicated by the different items in Table 7, it can be observed that multilateral ODA has fluctuated a good deal more than has bilateral ODA. But bilateral aid almost always held the majority share of the total, at an average of 61 per cent over the whole period. Only in 1980 was the multilateral component the larger, when the share of bilateral ODA fell to 39 per cent.

Total official commitments also exhibit fluctuations of behaviour over the period, with both 1982 and 1983 showing about the same levels as in 1979. The share of ODA in the total was always between 50 and 60 per cent, except for 1982 where the share was 79 per cent. The concessional nature of official flows to manufacturing in sub-Saharan Africa has thus been maintained, even if the abolute levels have declined in real terms. Of non-concessional flows, the most marked behaviour is that of official export credits, which have fallen dramatically, and of non-ODA loans, which showed an enormous increase in 1983. This is perhaps the only positive aspect of the figures for 1983, since this represents a move, within the non-concessional area, to a form of finance which allows more flexibility to the industrialization process than export credits, which, although at fixed interest rates, are necessarily tied to the provision by a predetermined supplier or country.

21/ These estimates are taken from Dancet G., "ODA To Manufacturing Industry in Sub-Saharan Africa", (UNIDO: Regional and Country Studies Branch) forthcoming.

The statistics given in Table 7 are necessarily incomplete, since they are based on reports of individual donor countries to the OECD Creditor Reporting System. They exclude several DAC member countries: Belgium, Finland, Australia, and New Zealand, apart from non-DAC donors such as OPEC and CMEA. They also include technical co-operation commitments, which are those of personnel supply from developed to developing countries or of grants (occasionally loans) supplied to developing country students, whether for education at home or abroad. Moreover, the individual projects have to be classified according to whether they represent aid to the manufacturing sector or not. For some areas, such as vocational training, assumptions had to be made, and in preparing the table, it was all allocated to manufacturing, except when clearly inappropriate. Again some of the definitions used, such as in connection with export credits, have altered over the years.

An alternative attempt was made to estimate share in total foreign finance available to the manufacturing sector. Table 8 22/ presents an estimated picture, essentially devided into three parts: ODA from DAC members, from multilateral agencies and OPEC. Shares of 8 per cent, 8 per cent and 5 per cent were applied to the total disbursements of these three groups to SSA to derive estimates of ODA to the manufacturing sector.

Non-concessional finance can be divided into export credits, other official flows, direct investment and portfolio investment (bank lending). A previous UNIDO study 23/ estimated that 40 per cent of aggregate export credits were for capital goods for the manufacturing sector, 33 per cent of direct private foreign investment was for maunfacturing and 15 per cent of net private bank borrowing was for industrial borrowing. Finally, an estimate of 8 per cent, the same as for concessional finance, was applied to other official flows.

22/ Although the time periods covered in Tables 7 and 8 are similar, differences in sources of estimation account for substantial differences in findings. Table 7 represents a relatively firmer estimate of ODA's allocation to manufacturing in the OECD group.

23/ Kitchen R "Financial Flows: statistical background", UNIDO Industry 2000 - New Perspectives collected background paper 1979 p.107-109.

Table 7: Official committments to industry in SSA (1978-1983) on the basis of the OECD Creditor Reporting System (US $ million at current prices)

	1978	1979	1980	1981	1982	1983
DAC bilateral ODA grants and loans	127.3	183.4	102.9	146.4	179.1	157.7
Multilateral ODA grants and loans	66.0	67.3	160.6	42.0	143.0	96.5
Total ODA grants and loans	193.3	250.7	263.6	188.4	322.1	254.2
Grant like official committments	0.3	1.2	0.1	-	0.8	0.9
Direct export credits	96.7	119.7	43.3	14.5	1.6	-
Other non-ODA: export credits	-	-	117.5	95.7	82.1	27.8
Total official export credits	96.7	119.7	160.8	110.2	83.7	27.8
Other non ODA: non-ODA loans	60.0[a]	54.1[a]	81.5	50.6	17.0	146.2
Total official committments	350.3	425.7	514.8	349.2	423.5	429.1

[a] Data for 1978 and 1979 were reported under export credits
Source: G. Dancet, op. cit.

Table 8: Estimated net flow of foreign finance to the manufacturing sector in SSA (1978-1983) (US$ million at current prices)

	1978	1979	1980	1981	1982	1983
ODA by DAC countries	265	336	401	408	408	397
ODA by multilateral agencies	136	158	193	192	182	180
ODA by OPEC countries	23	28	33	28	34	35
ODA from all sources	424	522	627	628	624	612
Other official flows	59	55	104	93	91	118
Export credits	422	616	664	514	560	474
Direct investment	164	129	287	521	642	118
Portfolio investment	93	104	199	234	283	85
Non-ODA from all sources	738	904	1,254	1,362	1,576	795
Total financial flows to manufacturing	1,162	1,426	1,881	1,990	2,200	1,407
Percentage of total financial flows	13	14	14	14	15	12

Source: G. Dancet, op. cit.

Table 8 shows that the level of ODA to the sector from all sources (DAC, multilateral, OPEC) has virtually stagnated in nominal terms since 1980, having risen sharply until then. The proportions between bilateral DAC, ODA and multilateral ODA have hardly changed since 1980. But, looking further down the Table to total financial flows to industry, the picture is more dramatic. These total flows grew at an average of 17.3 per cent over the period 1978 to 1982, doubling in four years. But over three-quarters of those gains were lost in 1983, with total financial flows falling from $2,200 million to $1,470. As has been noted, ODA remained about the same, and the real losses were in the area of direct investment and portfolio investment, both of which fell to levels below those in 1978. The effect of this is to increase further the importance of ODA in total flows, with its share rising from 36.5 per cent in 1978 to 43.5 per cent in 1982. If, in addition, it is noted that export credits are usually under substanial government control, then it can be said that no less than 77 per cent of financial flows to the manufacturing sector in sub-Saharan Africa require some government involvement. National policies can thus play an important part in restructuring industrial investment in Africa.

The overall picture is thus clearly a sombre one. Manufacturing growth rates have declined, concentration has increased, export levels have been stagnant and import dependence remains high. Net transfers are declining and the debt service to export ratio is likely to increase in the immediate future. Total foreign resources available for industrial rehabilitation have fallen significantly since 1983. This has led some policy makers to advocate an economic strategy which downgrades the importance of sustaining industrial growth in Africa. The next part of this paper examines the rationale behind a continued emphasis on African industrial development.

PART TWO: THE ROLE OF MANUFACTURING IN AFRICAN RECOVERY

That Africa faces a very serious economic crisis is not in doubt. Although commodity prices have improved somewhat during 1984, export growth is restricted by a declining agricultural sector severely affected by the drought. Most economies face rampant inflation and declining production levels. Capacity utilization rates - particularly in manufacturing - have

declined dramatically. In many African countries capital utilization rates are as low as 30 per cent - largely due to the high import dependence of most manufacturing plants combined with the present severe foreign exchange shortage. There has also been an important change in both the level and structure of gross domestic investment. During 1970-79, gross domestic investment had tended to grow faster than GDP (3.2 per cent as against 2.9 per cent) in sub-Saharan Africa [24]. Since 1980 many states (Nigeria, Swaziland, Tanzania, Zambia, etc.) have reduced government investment levels substantially in order to contain the budget deficit. Foreign private investment has declined from a peak of $3400 million in the late 1970s to $1800 million in 1982, and has not recovered since [25]. Moreover, investment inefficiencies persist and net surplus generated within the manufacturing sector remains low. This has also contributed to a fall in capacity utilization rates by limiting capabilities of firms to purchase spare parts, and carry out technology up-grading.

It is apparent that the African industrialization process launched in the 1960s has entailed high economic costs. Since the early 1980s the World Bank has produced a series of documents detailing these costs [26] and outlining new approaches to increase returns. The Bank thus recommends an export-oriented approach which seeks to exploit Africa's revealed comparative advantage in world markets. It calls for an expansion of the role of the private sector in manufacturing and for a curtailment of parastatals. According to the Bank, market-oriented price incentives should be the main instrument for achieving industrial restructuring in this perspective, and protection levels should be reduced.

24/ Wangwe S.M. "Sub-Saharan Africa: Which Economic Strategy?", Third World Quarterly Oct 1984 p.204.

25/ African Economic Digest 21 Dec 1984, p.17.

26/ The first of these was World Bank: Accelerated Development in Sub-Saharan Africa, 1981.

Such a strategy may contribute to increasing the integration of African national economies within the world economy. The product areas in which growth can be expected on the basis of such a strategy are those on which African countries have a revealed comparative advantage. These have been estimated by UNIDO for five African countries for the period 1976-78 and are reprinted in Table 9. It will be seen that the overwhelming majority of these products are simple consumer goods. It is, however, difficult to discern how an industrialization strategy of this type could be able to reduce Africa's import dependence, within either the agricultural or the manufacturing sector. It is also unlikely to lead to export expansion as rapid as that envisaged. It has been shown that the expectation of an annual average rate of growth of 28 per cent in the value of Africa's manufactured exports during the 1980s is quite unrealistic 27/. Export growth achieved by even the more "market-oriented" African countries during the 1970s has been substantially below this level 28/. Thus, foreign exchange problems do not seem to be significantly alleviated by pursuance of such policies at least in the short run.

An important factor that deserves mention in this context is that a strategy currently advocating a far-reaching liberalization and deregulation may lead to a reversion to the patterns of development that prevailed during the pre-independence period in most African countries. During this period, Africa remained one of the most open regions within the international economy. This "openness" contributed towards its international integration in the form of a dependent periphery, unable to base its own development on an increased domestic utilization of its considerable mineral and agricultural resources on the one hand and unable to influence the process of price formation in international markets on the other. An industrial strategy in the 1980s needs to be based not only on a pursuit of existing international comparative advantages and one-sided liberalization as this could mean that a large proportion of manufacturing activity in most African countries could

27/ M. Godfrey "Exports and Structural Adjustments in Sub-Saharan Africa", IDS Bulletin Jan 1983 p.39-40.

28/ B. Balassa, "Export Response to External Shock in Sub-Saharan Africa", Journal of Policy Modelling, 1983, p.75-102. The export performance of market-oriented economies was superior to that of interventions and countries according to Balassa.

Table 9: Products with Values of the Revealed Comparative Ratio 1, for Five African Countries, 1976 - 1978

Egypt	Ivory Coast	Kenya	Morocco	Tunisia
Preserved fruit	Food preparation	Meat preparation	Fish preparation	Cereal preparation
Vegetable tubers	Fruit preparation	Meat and flows	Cereal and starch	Dried fruit
Sugar	Coffee extract	Fruit preparation	Fruit preparation	Preserved fruit
Food preparation	Animal feed	Tea	Animal feed	Sugar
Alcoholic beverages	Reclaimed rubber	Margarine	Alcoholic beverages	Alcoholic beverages
Wool products	Shaped wire	Food preparation	Pulp and waste paper	Pulp and waste paper
Petroleum products	Petroleum product	Petroleum product	Animal oils	Vegetable oils
Essential oils	Vegetable oils	Inorganic chemicals	Vegetable oils	Inorganic chemicals
Cosmetics	Essential oils	Dyeing extract	Inorganic chemcials	Essential oils
Leather products	Chemical materials	Pharmaceuticals	Manufactured fertili-	Leather and leather products
Textile yarn	Wood manufacture	Soap	zers	Cork manufactures
Cotton fabrics	Paper manufacture	Chemical materials	Leather products	Cotton fabrics
Made-up textiles	Cement	Leather	Cork manufactures	Made-up textiles
Floor covering	Road vehicles	Fur skin	Textile yarn	Floor covering
Aliminium		Wood manufacture	Cotton fabrics	Lead
Furniture		Paper products	Textile fabrics	Metal containers
Travel goods		Cement	Toiletries	Travel goods
Clothing		Glassware	Silver production	Clothing
Footwear		Metal containers	Lead	Vegetable tubers
Printed matter		Household metal pro-	Household equip-	
		ducts	ment of metal	
			Furniture	
			Clothing	
			Footwear	
			Other manufactures	

. The revealed comparative advantage index RC_A is defined as: $RC_A = \frac{Xij/Xim}{Xwj/Xwm}$

when Xij = export of product j by country i
Xwj = world experts of j
Xim = total manufacturing exports of i
Xwm = world manufacturing export

Source: UNIDO. Changing Patterns of Trade In World Industry, UN New York 1982, p. 23-24, 67-69, 110-113, 118-120, 132-134, 186-188.

simply be wiped out. The development of a viable industrial base capable of effectively utilizing Africa's abundant natural resources must remain an important policy priority. The creation of such an industrial base is a necessary precondition for sustaining an export-oriented industrialization strategy capable of exploiting dynamic comparative advantages.

The industrialization pattern that has been established during the previous two decades has shown not to be able to lead to sustained socio-economic growth. Industrial development is, however, essential to reduce Africa's international dependence and vulnerability to external shocks. African industry needs to be restored and be directed towards alleviating Africa's present economic problems and establishing the base for a resumption of economic growth.

To this end, Africa's industry needs to be restructured in two fundamental ways. First, industrial development must be better integrated within national economies. Industry must become resource-based. The proportion of imported inputs in total supply - reported in Nigeria to be as high as 60 per cent - must fall. Industry must produce more of the equipment and commodities required for the revitalization of agriculture. The development of both a fertilizer and an agricultural machine tool industry suited to Africa's resource potential and the prevalent land tenure system is of vital importance for augmenting productivity in both the food and the cash crop sectors. Efforts must also be made to revitalize the small-scale industries operating in rural and semi-rural centres geared to serving agriculture's needs. In the past, the growth of modern industrial enterprises has often contributed towards a destruction of the informal village industrial sector, thus impairing industry's links with agriculture. In most African countries - even large ones such as Nigeria - the amount of local subcontracting remains abnormally low. There are large "gaps" in the industrial sector, indicating an absence of local suppliers of simple intermediate inputs. The filling of these gaps must involve increased emphasis on the development of small-scale and village-based industry in Africa 29/.

29/ On Nigeria see UNIDO Industrial Development Review, Nigeria (forthcoming).

Secondly, the need for revitalizing village industry (as a means for increasing linkages between agriculture and industry) indicates another aspect of industrial restructuring. The present industrial structure in most African countries consists of a state sector on the one hand and a foreign enterprise sector on the other. The domestic private sector is small and relatively insignificant, except perhaps in the larger countries such as Nigeria, Egypt and Morocco. Relations between private industry and government are often strained. Foreign investment is welcomed as a source of technology transfer and hard currency resources but foreign enterprises often turn out to be instrumental to rising repatriation of profit and salary. Many African countries experience a high level of surplus repatriation. In Swaziland the net outflow on the service and short-term capital account equalled 50 per cent of export earnings during 1979-82 30/. Repatriation levels are also relatively high in Nigeria and Zambia. Attempts at regulating these outflows have often not been sufficiently well explained to foreign investors and policy inconsistencies have sometimes created both confusion and resentment.

There is thus a need to build a new relationship between government and private industry - both domestic and foreign. This cannot simply take the form of whole-scale across-the-board "deregulation". It should involve extended co-operation on the lines of some of the more successful East Asian countries, where government support in specific areas is bartered for improved performance, increased domestic investment and utilization of locally produced raw material and intermediate inputs and greater access to foreign markets. That significant scope for such co-operation exists is testified by many facts. Many prices which Africa pays for her imports are administered prices determined by ologipolistic collusion among a relatively small number of firms. The precise methods by which such arrangements operate in the case of the world electrical engineering industry (which supplies a significant proportion of Africa's manufactured imports) has been thoroughly documented 31/. Substantial price distortions also exist in the domestic economies of most African countries. The price and taxation systems contain

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30/ UNIDO Industrial Development Review, Swaziland UNIDO/IS.516 (1985).

31/ Epstein B. and Newfarmer R. "Imperfect International Markets and Monopolistic Prices to LDCs", Cambridge Journal of Economics No.1 (1982) p.33-52.

inconsistencies which sometimes deter and frustrate foreign investment initiatives. Protracted negotiations on a continuing basis can contribute towards improving the terms on which technology imports are made available to Africa. Governments can reciprocate by enhancing opportunities for increasing regional trade, rationalizing price structures and adopting appropriate fiscal policies.

Building a new partnership between government and industry and restructuring industry to increase its linkage with agriculture can constitute key elements in a programme for reducing Africa's vulnerability to external shocks and its dependence on imported technology, raw materials and finance. This dependence has become acute during the present crisis, but it is a legacy of Africa's colonial past. Getting rid of this legacy involves not de-industrialization but a restructuring of industry in order to make it a tool for improving Africa's development performance.

Finally, it must be stressed that a restructuring of African industry, through increasing linkages with agriculture and building a new partnerhsip between government and industry, necessitates a substantial re-organization of the industrial policy-making processes in African countries. Careful and dispassionate analysis of the mistakes made during the past decade will lead to an identification of the ways in which specific projects became instruments for accelerating the deterioriation of the foreign exchange position of African countries. The rehabilitation of existing projects and the organization of new ones can the be undertaken within a policy framework which avoids the past mistakes and promises a more efficient and effective utilization of both domestic and foreign industrial finance.

PART THREE: MANAGING INDUSTRIAL DEBT

The effective utilization of foreign industrial finance is clearly a policy priority for Africa today. The industrial sector's share in total African debt is unlikely to be large - UNIDO estimates as reflected in Tables 7 and 8 put it at between 5 and 8 per cent in recent years. However, industry's capacity to generate foreign exchange earnings is also very low and as noted in the previous paragraph, many large projects have become

chronically dependent on foreign finance. A reduction in the availability of foreign exchange can have very serious implications for African manufacturing. The following pages discuss policies that may be appropriate for reducing the vulnerability of the industrial sector to changes in foreign financial inflows.

3.1 Short-term policy options

African Governments and most donor agencies would agree that, despite present difficulties, there exists an identifiable set of manufacturing enterprises which deserve to be salvaged and rehabilitated. Criteria for identifying these enterprises would differ from agency to agency. Part Two of this paper has argued that priority ought to be attached to enterprises producing inputs for agriculture, capable of filling production "gaps" in the intermediate and capital goods branches, processing mineral resources, and those which are primarily (at least potentially) export-oriented. The development of a "short list" of such enterprises and an estimation of the irreducible minimum level of foreign resources necessary for their rehabilitation could be a basis for negotiating the terms on which foreign finance can be made available to these enterprises.

It is generally believed that the ability of the African countries to renegotiate international financing arrangements is low. However, there is increasing recognition that the evident inability of many African countries to service their debt in the short-run by simply cutting consumption levels enhances their scope for renegotiating the terms for debt rescheduling. This is because the responses of public and private creditors to sustained and drastic welfare loss in debtor countries ranges widely [32/]. African countries stand to gain from carefully identifying sources of industrial finance on a project-by-project basis and by adopting negotiating stances that are attuned to creditor sensitivities and priorities [33/]. Individual

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30/ For one description of differences in credit response see Krumm, K., Sub-Saharan African Debt, World Bank, 1985, p.28-32.

31/ Priorities and sensitivities of banks whose loans to developing countries form a large proportion of their total loans differ from those of banks whose DC loans are of subsidiary importance. For example, the former seek to avoid a defaulting situation at all costs. See F. Stewart "International Debt and North-South Relations", World Development, Vol.13, No.2, 1985, p. 194-195.

African countries would also stand to gain significantly by pooling negotiating resources on the debt issue as shown by the Latin American experience. Some African countries - such as Algeria where bank debt amounted to 13.5 per cent of total debt in 1982 [34/] and Nigeria which successfully renegotiated its private export debts during 1984, despite friction with the IMF - have considerable negotiating clout. A co-ordination of African national debtor strategies can pay rich dividends in terms of linking the regeneration of repayment capacities to the servicing of debt with the industrial sector.

It might be argued that renegotiating debt offers opportunities for building alliances including countries in Asia, Africa and Latin America with serious structural imbalances and liquidity problems and a consequent inability to service their debt.

Such an economic categorization of African countries as well as other developing countries will draw an immediate comparison with the post-1975 category of Most Seriously Affected countries (MSAs) in the wake of the first oil price adjustments. This category was accepted within the United Nations, including the Bretton Woods institutions. We would replace this category with Most Imbalanced Structure Economies (MISE) which would be a category which could serve as a rallying point for developing countries, some developed countries and those groups within virtually all countries which share a common concern. The procedures to draw political and economic support for the MISE countries could be similar as in the post-1975 period, with the difference that in 1985 and probably in succeeding years the most adverse economic circumstances can be expected to continue. In particular Africa's drought and the economic and social dislocation brought about by this catasprophe will persist unfortunately for some time. As on the previous occasion, a perhaps successful attempt can be made for all MISE countries to receive concessional finance from the World Bank and the IMF. Concessional finance allocated to industry should be used to provide working capital, spare parts, intermediate inputs and imported know-how and skills essential for sustaining justifiable industrial investment in the short-run. It needs to be recognized that service inputs, bilateral or multilateral, provided through technical

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34/ Stewart F. op.cit. p. 200

co-operation projects implemented by international or national donor agencies, or for the matter by commercial enterprises, do not face much chance of success, unless such arrangements are underpinned by resources based on minimal financial support. Technical assistance services should be combined with the minimal necessary financing for the purchase of spare parts and raw materials at least on a temporary basis. Similar considerations apply with regard to commercial arrangements of various types where provision would need to be made not only for inputs of management and expert services, as is readily recognized, but such arrangements would also need to be supported by the involvement of finance institutions and/or the supply of finance. In this connection, attention might need to be focused on those developed countries which recongize the urgency of these problems. Arrangements are required to stimulate and support particularly those small and medium-scale enterprises in the DMECs, for which opportunities in the MISE developing countries could prove to be of mutual benefit; some of these enterprises in the industrialized world are seeking new markets for the most valuable resources they possess: various skills, expertise, services. It is clear that an essential aspect of such arrangements would be the willingness of developed country governments to provide effective institutional support to the efforts of both their small-scale enterprises and to MISE country governments.

African Governments must complement increased international support by policies that significantly improve the processes of project selection, implementation and administration. Often projects have been approved merely because foreign resources have been available for undertaking them. This has led to many costly mistakes in the past. An improvement in project planning techniques and procedures is necessary for a realistic assessment of market opportunities and resource potential. This and a rationalization of domestic price structures is an essential prerequisite for an effective utilization of foreign concessional resources allocated to industry.

3.2 Medium-term policies

International concessional assistance available to industry can also be the subject of negotiation between donor and recipient government. An important adverse feature of ODA flows is the extent to which they are tied to procurement in donor countries. Difficult economic conditions in developed countries create pressures for their aid programmes to act in support of

domestic industry. Some developments in this area include the strengthening in 1983 of the DAC guiding priciples on export credits, in order to imporve the transparency of "associated financing". This is a variant of tied aid in which ODA is combined with other non-concessional finance in such a way that part or all of the package is tied to procurement in the donor country. After the adoption of these guidelines, the volume of associated financing has fallen. But tendencies towards bilateralism further enhance the likelihood of increased tying of aid, with its inevitable shift of emphasis away from the needs of the recipient economy towards those of the donor.

Another form of tied aid, as district from project aid or associated financing, is a commodity import programme. This is in effect an addition to the recipient country's foreign exchange (and total) resources, but the money has to be used for the purchase of goods from suppliers in the donor country. It is thus more flexible than project aid, and can make it easier for the recipient country to obtain foreign exchange for essential inputs. Sometimes ODA is given in the form of balance of payments support - e.g. Swedish assistance for financing Tanzanian oil imports. This type of aid, however welcome in the short run, tends in the long run to increase the international dependence of the recipient economy. ODA should be used for strengthening the planning and decision-making processes, particularly in the countries of sub-Saharan Africa, whose independence is usually of a relatively recent date, not for increasing dependence. Confronted with pressing social and economic difficulties, the ability of administrations to deal not only with crisis management but with the efficient absorption of ODA is clearly under strain.

In donor country perception of Africa, there is clearly an inherent bias in ODA towards the short- or medium-term, rather than the long-term. Even for longer-term ODA, education and perhaps agricultural self-sufficiency might be highest in donor country public perception. Appreciation of the central role of industrialization in development has to contend with the revealed urgency for measures in other areas, and requires a medium- to long-term view. The recent trends of negative growth in fixed investment in Africa and the difficulties in mobilizing domestic savings make the success of the Industrial Development Decade for Africa crucially dependent on foreign resources, especially given the high import content of industrial investment in the region.

The question of time-horizon is closely linked with that of sectoralism, i.e. the sectoral focus of ODA. Aid to other sectors can help manufacturing also if agricultural or infrastructural development use inputs of the local manufacturing sector and if such development create increased demand for manufactured products. Improved infrastructure, education, communications, and energy supplies all can have a positive effect on manufacturing.

In practice, however, the operation of such mechanisms, especially in the African context, have not brought the benefits that might be expected. The presence of aid tying naturally militates against the use of local inputs in a project: it may also be associated with the project in its operational phase if it depends on imported inputs in the future. This type of industrialization is an inappropriate application of sectoral aid: even if the imported inputs are not specifically required to come from one country, the progress of the industry is nevertheless absolutely dependent on foreign imports while the export earnings are determined by fluctuations in international competitive markets and in exchange rates.

Some bilateral donors make special efforts to encourage local content, fostering the growth of manufacturing by planning its inputs into aided projects in other sectors. In view of the incomplete industrial structures in most African countries and the need to exploit complementarities as far as possible, ECDC is an essential feature of the Lagos Plan of Action and the Industrial Development Decade for Africa. The need may well be for aid tied to procurement within the region as far as possible. Indeed, regional co-operation may become more explicitly a focus of ODA to manufacturing, such as is occurring in the SADCC region, whose projects have attracted a significant amount of bilateral and multilateral assistance.

From a medium-term perspective there is also a need to restructure the content of concessional finance. Within industry there is a particular need for expertise for strengthening the institutional infrastructure and improving managment and accounting services. Developing countries such as Algeria, Brazil, China, Egypt, India and the Republic of Korea may be able to provide such assistance more cheaply and effectively than developed countries. There is scope for developing packages within Third World financial institutions and elsewhere for combining arrangements for the procurement of both finance and expertise necessary for the rehabilitation of specific manufacturing enterprises and sub-sectors.

Whereas significant scope exists for improving the terms on which concessional finance is made available to Africa and perhaps also for altering its content, the question is whether it is realistic to expect the type of "massive transfers" advocated by the Brandt Reports and some other authors in the early 1980s [35/]. Aid volumes seem unlikely to rise in real terms at least in the medium-run. It may, however, be important to re-examine and reiterate the mechanisms of some of these proposed schemes in the light of the particular problems facing Africa today. Thus, along the lines of the proposal originally conceived by former Austrian Chancellor Bruno Kreisky for a joint real resource transfer by developed market economy countries for building up the required infrastructure in developing countries, it may be possible to find ways to, inter alia, arrange for emergency supplies of key inputs to Africa's industry and its infrastructure in the form of various pieces of equipment, components and spares. Multilateral donor institutions such as the World Bank tend to advocate an export-oriented industrialization strategy for Africa. However, proposals for executing such a strategy are relatively general. They present the traditional argument but should above all address such questions as: Where are the markets for African manufactures exports? What are the barriers to entry within these markets (if they exist at all) and what state and private sector policies are appropriate for eroding these barriers? How is export diversificatioin to be achieved by small economies? What are the chances for a sustained secular improvement in Africa's international terms of trade? etc.

If a viable export-oriented policy is to be adopted by African decision-makers, they will have to consider these issues on a product by product basis and to draft delicatly tuned policy initiatives for seizing market opportunities. That some scope exists for experimenting successfully with such policies is shown by the growth of counter trade arrangements throughout the developing world - an important instance being the $1 billiontrade deal between Brazil and Nigeria concluded in early 1985 which made Brazil Nigeria's largest trade partner. Similar deals, if carefully negotiated and monitored, can be a useful medium for gaining access to technology imports, avoiding debt problems and diversifying trade sources and

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35/ For a listing of these proposals see UNIDO, ID/WG.377/1, 30 June 1982, Annex I.

destinations [36]. It is desirable that both public and private sector managers and financiers be involved at an early stage in the formulation and execution of such regionally-oriented trade and investment projects and South-South trading arrangements.

For the smaller African countries international industrial specialization must imply at least a degree of regional economic co-operation. Schemes for integration have not been lacking but regional trade and investments have remained discouragingly low. The inability to develop regionally co-ordinated trade and investment strategies has been an important cause of the international vulnerability of much of African industry.

The larger African countries - Algeria, Egypt, Nigeria, Morocco, Zimbabwe - can conceive a nationally oriented industrialization strategy. Some of these countries have gone through a relatively comprehensive import substitution industrialization (ISI) phase broadly similar to the 1960s experience of some NICs - Brazil in particular. These African countries can seriously contemplate building a relationship between government and industry which permits a fuller exploitation of opportunities in international markets. These opportunities and the appropriate policy mix required are unlikely to be exact replicas of those developed by the NIDs during the 1970s. The relatively advanced African countries cannot simply repeat the NIC experiences. They will have to develop a capability for policy adaptation to rapidly changing market conditions and foster institutional innovativness which cannot emerge spontaneously as a response to the opening up of their economies to international market forces [37]. Such a strategy, if

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36/ Belcher W. "Uncertain Partners: South-South Trade Between Brazil and Black Africa", Managing International Development, Jan-Feb 1984 p.7-23.

37/ The North African economies, for example, have the opportunity to build a special relationship with the EEC. Such a relationship will have significant implications for industrial specialization within this group of countries. The NICs also developed a special relationship with the USA in the 1970s but the EEC is more likely to shield the industrial structures of North Africa from world market forces and regional financial institutions may play a more supportive role.

successful, can reduce international financial dependence of manufacturing enterprises in these countries by both increasing export revenue and facilitating a fuller use of domestic resources in the industrialization process. The servicing of debt can thus become progressively easier over the medium-run and the range of options available to such countries in international financial markets can be expected to broaden.

The smaller economies of sub-Saharan countries have, on the other hand, not experienced a sustained and comprehensive ISI phase. Hence an export-oriented industrialization strategy seems unlikely to succeed. The rehabilitation of industrial structures is crucially constrained by the small size of the national market. Whereas some policies, such as encouraging village industry and re-orienting industrial structures to give priority to the production of agricultural inputs can have undoubted beneficial effects, it is difficult to conceive of large scale intermediate or capital goods enterprises which can be a net earner of foreign exchange. For such economies an export oriented strategy may result in an increased vulnerability to price changes in international commodity markets. The inescapable conclusion must be that, for the smaller African countries, effective regional harmonization of industrial investment policies is an essential prerequisite for the rehabilitation of the manufacturing sector. If political realities foreclose the possiblity of effective regional harmonization, small African states cannot on an individual basis develop viable large scale industrial projects. Despite the adoption of remedial measures, industry will continue to display a tendency to be a net drain on foreign resources. For the smaller African countries regional harmonization must remain an important medium-term objective.

PART FOUR: CONCLUSION

This paper has presented a broad overview of changes in African industrial structures and attempted to discuss the implications of the deteriorating debt situation on industrial development in Africa. A range of short- and medium-term policy options for restructuring industry and re-organizaing debt have also been identified. It needs to be stressed that the development of a coherent macro-economic strategy vis-à-vis the industrial

sector must be based upon a detailed knowledge of individual cases - without such a knowledge it will be simply impossible to identify the whole range of policy options and opportunities available. Neither across the board deregulation nor comprehensive state control is either feasable or desirable if the intention is to make industrial development an instrument for reducing Africa's vulnerability to external shocks. There is a need to examine on a case by case basis the possibilities for combining state and market-oriented initiatives for revitalizing industry and re-negotiating the terms on which international finance is being made available 38/.

38/ The type of research indicated in the paper "External debt and the industrial sector in Africa: Outline of an approach" submitted to this meeting, can serve as an input in a research programme designed to meet this need.

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United Nations Industrial Development Organization

Meeting of High-Level Experts
on Africa's External Debt in Respect of
the Industrial Sector

Vienna, Austria, 14 - 17 May 1985

EXTERNAL DEBT AND THE INDUSTRIAL SECTOR IN AFRICA:

OUTLINE OF AN APPROACH

Prepared by

the UNIDO Secretariat

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I. INTRODUCTION

1. The purpose of this note is to provide a brief description of a project now in progress within UNIDO on the relationship between external debt and the industrial sector in Africa.

2. The project is obviously of direct relevance to the broad topic of the meeting. Since, however, the actual work on this project has only recently started, the note can just outline the main objectives and the approach used and attempt to single out the key issues which the project is addressing itself to.

II. BACKGROUND

3. Africa is in the confluence of several major crises. Those crises interact and deterioration in one field makes problems still more acute in others. The project tries, within the context of generalized crisis, to concentrate on two interrelated problems, viz external debt and the industrialization of Africa. In plain language, the project asks the question: what has been the impact of the particular pattern of the past industrialization process? This question leads to another and more fundamental one: By which approach would it be possible to put into practice in some African countries a process of industrialization which would contrast the pattern followed in the quarter of century since independence in that it provides the basis for sustained socio-economic growth and would not be a permanent drain on meagre foreign exchange resources?

4. The concern over the design and implementation of industrialization strategies and plans aiming at utilizing domestic resources and building up a viable structure has been an ever present issue of development planning in Africa since the early 1960s. Yet throughout those plans have tended to be composed of separately conceived industrial investment projects and their implementation has been intimately linked to the availability of foreign exchange. The projects foresaw or finally required foreign inputs not only covering the provision of investment funds (used to purchase consultancy services, civil engineering, capital equipment and machinery) but also ongoing costs of operations (purchase of intermediate inputs and use of expatriate manpower). Industrialization in Africa in the post-independence period has thus been largely tied to foreign exchange availability and that availability has always been circumscribed both in quantity and conditions.

5. The acute debt crisis has meant a crisis for industry built up under these conditions and with assumptions that proved to be subject to drastic revisions, as a result of major changes in international economic environment during the beginning of the 1980s. The shortfalls in prices of primary commodities, which have always represented the only element of 'autonomous' foreign exchange earning capabilities for African countries, the dramatic increases in the value of the dollar (the currency in which a large proportion of foreign exchange transactions are denominated) the substantial rises in real interest rates, and the growing reluctance of donor agencies to provide foreign exchange on the same scale as in the past have all led to an acute worsening of the debt situation and of the manufacturing production.

6. It is against that backcloth that the industrial sector has now come under sharp scrutiny. Since it is seen as the sector with inherent features of an absorber of foreign exchange without generating any, the reaction of many influential groups both within and outside Africa has been to advocate that from now on manufacturing industry be cut back so as to diminish its demand for foreign exchange and to confine itself to those operations where the foreign exchange loss is minimal.

7. This approach begs several key questions. First, by far the major cause of the current debt problem is the result of the international environment rather than the domestic one. It follows that unless the fundamental nature of Africa's relationship with the international economy is altered, other changes will not do more than reduce the total debt burden by minor amounts. Secondly, given the existing conditions the prospects for repaying debt are, in the large majority of African countries, very slim. The situation bears some resemblance to that of Germany after the 1919 Versailles Conference: debt burdens which cannot be repaid given current production capacity and demand requirements in the major creditor nations.

8. Thirdly, while much is made of the need to orient industry towards exports, there is a lack of concrete evidence to show that such projects are in fact possible in more than a handful of cases (and even fewer countries). Consequently, the injunction to move away from import substituting activities towards export-oriented ones cannot, save for

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a few instances, be seen as a real option. Fourth, to concentrate on updated versions of the standard division of labour as it affects Africa, i.e. with the continent as an area from which agricultural and mineral resources are extracted and which imports its requirements of industrial goods and services, offers not greater prospects of sustained improvement in living conditions in the mid-1980s than it did at the time of achievement of independence. Indeed, the industrial sector cannot be set aside as the key contributor to long-term development.

III. THE FOCUS OF THE ANALYSIS

9. The research project is aimed at trying to harness evidence relevant to an informed debate regarding the actual role of implemented industrial projects for the present debt burden and the real prospects for an enhanced development of industry considering the foreign debt situation. This means also describing the main characteristics of current industry structures: the import substitution emphasis, the bias towards larger projects with heavy inputs of foreign capital and technology, the involvement of the State and foreign firms as owners of capital, the huge gaps in the inter-industry structure with their consequences for dependence on imported inputs, the narrowness of domestic markets for industrial products due to low income level, the minimal prospects both for intra-African industrial trade and exports outside the region, and the low levels of utilization of existing capacity.

10. The project further seeks to identify the implications and the actual handling of the foreign exchange burden. Tentatively, it can be argued that the existing financial structure means that the public sector debt in fact becomes the critical variable. In these conditions, the pressures imposed on African countries for short-term adjustment thus become part of the long-term situation. As long as the capital investment options of the public sector are cut back and foreign direct investment in industry is small, then there are only two routes through which additional investments can come, viz. private local entrepreneurs or funding from aid agencies. Preliminary results indicate that the prospects in these two directions are not bright. Consequently, the question still remains as to the role of the public sector in future industrial development.

11. It is against this background that the project attempts, albeit in a necessarily sketchy fashion, to draw some lessons from recent case studies regarding the organization and operation of industrial projects in Africa. It is frequently asserted that the central problem with such projects is that they are badly mismanaged and that a prime reason for such mismanagement is the influence of the public sector. Preliminary findings seem to show that this criticism is but a part of the whole picture. The initial pre-feasibility studies show alarming tendencies to overestimate returns from industrial projects. Since in most cases those studies are conducted by bilateral or multilateral agencies or by foreign firms, questions arise as to reasons for such consistent errors. Furthermore, the frequency with which these projects fail to be monitored and improvements made in them is likewise a reflection of deficiencies in both foreign and African organizations. The project tries to make an initial attempt to specify such difficulties more carefully and suggest ways in which improvements could be made both in Africa and abroad.

12. Recognizing that African industrialization in the next few years will continue to be closely connected with the foreign exchange issue, it is hoped that a first sketch of likely conditions affecting foreign exchange availability can be drawn. In doing so, an attempt will be made to concentrate on identifying possible action which African countries themselves can take to improve prospects in this regard.

13. The key questions the project seeks to focus on can thus be summarized as follows:

- To what extent has the past pattern of industrial investments contributed to the external debt burden of Africa and/or to the problem of debt servicing?

- What was the impact of the organization of industrial investment projects and of the subsequently operating plants?

- What were the main forms of external financing of industrial investment projects and what was their impact?

- What key assumptions underlying major industrial investments proved to be erraneous?

- How do the interrelated economic problems, in particular the debt burden and the foreign exchange crisis block current industrial production, rehabilitation, modernization and expansion?

- What lessons can be drawn from the past "indebted industrialization" and what forms and modalities could be found to facilitate a resumption of viable industrial growth?

- What internal and external policies and measures could be conceived to facilitate improvement of the current situation and the future organization and financing of industrial investment projects?

IV. THE SCOPE AND APPROACH OF THE RESEARCH PROJECT *)

14. It is the aim of the project to attempt to bring into the international debate and to the intra-African debate on Africa's industry two important contributions:

First, it is attempted to attain the direct linking of the issues of industrial development with the issue of industrial finance. There has been the tendency in the past to separate these two issues institutionally and organizationally. The link needs to be put into focus.

Secondly, it is attempted to bring in new sets of data and a new analytical approach into the debate, so as to provide a more factual basis for conceiving suitable measures and policies.

Against these ambitious goals, it is important that some crucial limitations on the current phase of the research project be emphasized.

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*) "Analysis of the Relationship between Industrial Projects and External Debt in Africa"

First, the work is being conducted in an extremely short time period; the project was begun only in early April and a draft report is required to be ready for the OAU Summit Meeting, which implies completion of the drafting by end-May. Secondly, the time constraint imposes important simplifications of the work; discussions with several key organizations as well as the opportunity to investigate the availability of statistical information have been effectively precluded. Thirdly, the budget for the project is very small and thus does not permit extensive use of commissioned inputs from knowledgeable sources. Fourth, the internal resources which UNIDO is able to assign to the project are limited, and this too curtails possibilities for more extensive work.

15. In view of these limitations, it is expected that subsequent to the submission of a first report, prepared for end-May on the preliminary findings obtained until that time, a further more comprehensive and systematic research phase can be launched.

16. The organization of the work in this current phase can be briefly outlined. The work has concentrated on three areas of investigation. First, an attempt to bring together data on the existing debt and industrial situations; in this respect the co-operation of regional and international organizations such as the World Bank, UNCTAD, OECD, Bank of International Settlements, ECA, ADB, Commonwealth and others has been excellent. From such data the project tries to build up a picture of the relationship between industrial projects and foreign exchange inputs. Secondly, an attempt is being made to provide up-to-date synopses of the current prospects as viewed from major OECD donor countries. To obtain such materials, surveys were commissioned in six countries, i.e. Canada, France, the Federal Republic of Germany, the Netherlands, Sweden and the UK. Those surveys endeavour to collect quantitative and qualitative information on the current involvement of public and private capital from those coutnries in African industrialization and the views held there on possible direction of industry in coming years. Thirdly, in-house analysis of aggregate and case study materials with a view to highlighting the major findings and sketching areas for further investigations. This work is supported where possible by discussions with experts in international financial organizations as well as with individuals closely associated with on-going industrial projects in Africa.

V. CONCLUDING COMMENTS

17. The approach sketched here should be viewed with the limitations of the current project in mind. It is hoped that on this basis, the Expert Group can provide valuable advice and suggestions for the report now under preparation and permit the UNIDO Secretariat to ensure that the document reflects the main ideas and the concerns of African policy-makers and institutions on this matter.

18. Moreover, and most importantly, the experts are invited to advise UNIDO on the scope for and approach of the possible continuation of this research work in a second phase and on the appropriate involvement of various African authorities and institutions in this detailed follow-up work.

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AFRICA'S EXTERNAL DEBT IN RESPECT OF THE INDUSTRIAL SECTOR: ISSUES AND PROPOSALS[1/]

Prepared by
the UNIDO secretariat

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C O N T E N T S

	Para.	Page
INTRODUCTION	1 - 8	1
Africa's External debt	1 - 4	1
Africa's foreign exchange expenditures	5 - 8	3
INDUSTRIALIZATION AND EXTERNAL DEBT ACCUMULATION	9 - 39	4
External dependence on factor inputs	9 - 11	4
External dependence on services	12 - 14	5
Unproductive investments and external debt accumulation	15 - 22	6
Africa's external trade and external debt	23 - 25	8
Flow of external financial resources into Africa and its external debt	26 - 29	9
MEASURES FOR ACTION	30 - 50	11
General considerations	30 - 35	11
Programme of action	36 - 50	13
Policy and institutional measures	36 - 38	13
Public enterprises and Transnational Corporations (TNCs)	39 - 40	15
Local production of factor inputs	41 - 42	16
Human resources	43	16
Services	44	17
Raw and intermediate materials	45	18
Intra-African co-operation	46 - 47	18
Policy and structural adjustments	48	19
Measures at the international level	49 - 50	19

INTRODUCTION

Africa's external debt

1. As recently pointed out by the experts of the Steering Committee of Member States established by the OAU Heads of State and Gove·nment to prepare the economic agenda for the forthcoming Summit, the persistent external debt in the region and its heavy debt-service burden are of grave concern to all African countries. According to the latest data published by the World Bank, the total outstanding medium- and long-term external debt (including undisbursed debt) for 46 African countries increased from $134.4 billion in 1982 to $136.8 billion in 1983. These amounts do not include the external debt of Angola, Libyan Arab Jamahiriya, Mozambique and Sao Tomé and Principe nor do they take account of short-term debt and IMF credits. At the end of 1984 the total debt of African countries was estimated to stand at $158 billion and it is expected to exceed $170 billion by the end of 1985.

2. At the same time, total debt service payments (interest and amortization) increased from $12.9 billion in 1982 to $14.9 billion in 1983. These figures only reflect the impact of rescheduling exercises and do not correspond to the debt service burden to its full extent. For instance, World Bank projections indicate debt service payments of the order of $18.9 billion in 1984 and $20.4 billion in 1985. Unless immediate measures are taken by African countries in co-operation with the lenders to alleviate the debt service burden, payments such as those projected will constitute serious difficulties for African countries.

3. In 1982, Africa's total debt was equivalent to 51 per cent of gross national product (GNP) and 59 per cent in 1983. The overall debt service ratio was 19.8 per cent in 1982 and 27.4 per cent in 1983. Although it is generally accepted that the average debt service ratio should not exceed 20 per cent, it exceeded this figure in a number of countries. Apart from the alarming rate of increase in Africa's aggregate debt and debt service, it is most disturbing to observe the considerable change in the structure of Africa's debt over the 1970s. For example, the share of "soft" loans declined from 62.5 per cent of sub-Saharan Africa's total debt in 1972 to 47 per cent in 1983. In the face of diminished flows of soft loans, a handful of African

countries - particularly oil-exporting and mineral-rich countries - resorted to borrowing from private banks. The share of financial markets in sub-Saharan debt rose from 14.5 per cent to 36 per cent over the period 1972-1983 and these countries increased their borrowing from the European money market from $3.3 billion in 1980 to $8.2 billion in 1981. In 1981, oil-exporting Angola, Congo, Gabon and Nigeria accounted for 58 per cent of the Euromarket borrowings, while the new oil producers of Cameroon and the Ivory Coast claimed 18 per cent, with Kenya and Zimbabwe sharing another 8 per cent.[1/]

4. Meanwhile, most other African countries were excluded and many turned to IMF stand-by agreements and extended fund facilities, despite the difficult conditions attached to IMF loans. The severity of the situation is underscored by the fact that in 1985 African countries will most likely repay more than they receive from the IMF. Repayments to the Fund under the so-called "repurchase obligations" are estimated at a total of $700 million.[2/] Moreover, it should be clear by now that debt rescheduling is unlikely to bring any remedy since the basic assumptions about the region's future capacity to repay such debt are generally unrealistic. Even a reduction of protectionist measures in developed domestic market-economy (OECD) countries is unlikely to do more than bring about a very gradual reduction in the debt and its burden since additional investment, based on imported factor inputs, will be required to finance new projects for export to those countries. It should be recalled that Africa is not a significant producer and exporter of manufactures and semi-manufactures. Any reduction of protectionist measures affecting industrial products will be mainly to the benefit of those third world producers who already dominate exports to the developed domestic-market economy countries. It may be thought that debt write-offs can solve the problem. Desirable as they may be, it is difficult to see why the debt accumulation process will not recommence shortly thereafter.[3/]

1/ African Business, June 1982, p.71.

2/ African Economic Digest, 4 January 1985, p.2.

3/ Of course some relief can be obtained through reductions in imports of arms and ammunitions and other war material as well as in more successful efforts to reduce illegal transfers outwards.

Africa's foreign exchange expenditures

5. The degree of the region's dependence on imported manufactures is truly alarming. Preliminary data collected by UNIDO from information published by the United Nations for most African countries indicate that the region's foreign expenditures on certain major industrial commodities amounted, for example, to $74 billion in 1982: this represents about 55 per cent of Africa's external debt for that year. If all expenditures on services and for all countries were added to that figure, the situation would be much more dramatic. Exports of manufactures from African countries are very small; they represent less than one per cent of world manufactures export. In the majority of countries for which data was available, food manufacturing and textiles were the only branches in which the import to apparent consumption ratio was below 25 per cent. Two other chemical products (liquified petroleum gas and distiliate fuels) have import to apparent consumption ratios below 50 per cent in most African countries. In 1979-1981, motor gasoline may also be regarded as a border-line case: 18 of the 41 countries for which data are available had ratios of about 50 per cent.

6. Of all items,[4/] 54.7 per cent had import to apparent consumption ratios approaching 100 per cent in all or almost all African countries. These products included virtually the whole range of intermediate industrial inputs necessary for integrated industrial development. The key issue lies in the fact that Africa is rich in both agricultural and mineral resources. Africa has vast potential for the development of manganese, phosphates, iron ore, bauxite, tin, copper and diamond-based industries. Yet exploration and product development in these branches is virtually at a standstill and the region continues to import an increasing proportion of processed mineral intermediate products. Moreover, there would certainly have been ample opportunity for increased utilization of intra-industry linkages.

7. Another feature of the industrial sector in Africa is the surprisingly little change that has taken place in import ratios over the period 1972-1974 to 1979-1981. Out of the 43 commodities included in category 1 (i.e. with import ratios approaching 100 per cent in almost all countries), as many as

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4/ Each commodity is counted twice: once for 1972-74, once for 1979-81.

38 remained within that category in both 1972-1974 and 1979-1981. Three products (wood pulp sulphate, non-cellulosic sulphate and lubricating oils) moved down one category and had import ratios approaching 100 per cent in the majority of African countries. Two products (glycerine and unwrought lead) moved up to category 1. By 1981, all African countries had an import ratio of 100 per cent in these commodities.

8. One particularly significant aspect of the debt problem is the contrast between developed countries which face acute problems of internal debt accumulation and third world countries which face similarly acute problems of external debt accumulation. The principal reason for this difference is the dependence of developed on their domestic markets not only for consumption of the bulk of their industrial production but also for the supply of the bulk of their factor inputs. It is rarely appreciated that OECD and CMEA countries are really developed domestic-market economy countries (however the market is organized): the economic theories and philosophies they espouse (and which we unsuccessfully seek to apply to Africa) are really nation-based.

INDUSTRIALIZATION AND EXTERNAL DEBT ACCUMULATION

External dependence on factor inputs

9. The above would seem to indicate that the main cause of debt is extreme dependence on imported factor inputs as well as investment in projects that are either unproductive or characterized by low capacity utilization. As is well known, the process of accelerated development and economic growth is dominated by the establishment of physical infrastructure and the creation of productive assets. This requires a long gestation period before substantial outputs are obtained. In general, this period is marked by the rapid growth of industries based on natural resources/industrial raw and intermediate materials: in particular, concerned with the generation and distribution of energy, the construction of buildings and other structures, the supply of water and production of basic chemicals (e.g. for agriculture, mining, civil engineering). The engineering requirements as well include the local production of implements, tools, spare parts and components as well as the launching of the machine tools industry. Since even the largest machine in the world is made up of parts, it is clear that the machine-building industry must begin with the production of (standardized) parts and components.

10. As the development process gains momentum, a tremendous demand arises for raw and intermediate materials, energy, equipment and replacements, often outstripping the supply capacity of the national economy. These needs have to be met by imports even in countries where strict control is exercised over both imports and end-uses of factor inputs.[5/] This demand 'bulge' often persists for years, occasionally declining only to expand again as more sophisticated equipment and other imports are required. It must be borne in mind that this "take-off" process may extend over 30 years.

11. These import "bulges" do not of themselves create debt if: (i) there are compensatory export "bulges"; (ii) the terms of trade remain fair; and (iii) foreign private investment flows (where these are permitted by the socio-economic philosophies of governments and are broadly directed towards the national industrialization priorities) remain roughly in balance in real terms. In fact, none of these assumptions hold true for Africa in the last decade or today nor are they likely to apply in the near future.

External dependence on services

12. In considering imports of factor inputs, the role of services, which constitute a very high foreign exchange cost, must also be kept in view. Most governments, preoccupied with the commodity aspect of the balance of payments, ignore the impact of service imports (shipping, civil aviation, insurance, marketing, information, management, consultancy, etc.) whose volume and unit costs are often not even monitored. This leads to a tendency to treat services (e.g. especially consultancy) casually and to neglect measures to ensure the substantial and efficient transfer of know-how to nationals. The process of industrialization coupled with structural change induces a heavy demand for consultancy services, especially in project design, planning, construction and project management. This is particularly true of the African region which is virtually a greenfield site of continental dimensions, enormous expenditures are required in new physical infrastructures (roads and railways; airports and harbours; electricity generation and distribution; water supply and effluent disposal; construction of townships; site planning and development; plant construction, etc.).

5/ As in the case of centrally planned economies.

13. There is no lack of opportunities for building up national capabilities in the service sector. All that is required is better organization, including the extension of education courses and introduction of specialization. The public and the foreign private sectors also need to be encouraged and, indeed, urged to make genuine contributions to the development and utilization of local consultancy skills. Much will have to be done to improve the quality of work in small- and medium-scale enterprises. Despite the growing importance of service imports by the third world (and presumably by Africa), it would seem that policy-makers or planners have never given the matter serious attention.

14. Policy-makers and planners must make special and sustained efforts to: (i) devise educational schemes to include specialization in these areas, and (ii) ensure that all state contracts not only provide for nationals (individually or in groups) to acquire on-the-job experience, but also include measures to ensure that this satisfactorily done. Unless this is done, foreign exchange will have to be spent on importing such services. The easiest and most reasonable place for nationals to acquire experience of this kind is on projects within their own countries or on multinational projects.

Unproductive investments and external debt accumulation

15. Another major factor contributing to debt accumulation is the persistence (indeed the extension) of enclaves, semi-enclaves and dysfunctional relations within the economy. While it is true that many projects fail as productive enterprises because they were conceived and commissioned for reasons irrelevant to enhancing development and economic growth and diversification, a far larger number have failed for several other reasons, including a deficient conceptual base, poor design, construction or management, wrong choice of technology, absence of forward and backward linkages or trouble-shooting capabilities, inadequate local and external markets and wrong timing resulting in productive projects often being created in advance of their time.

16. An example of conceptual deficiencies is the establishment of polytechnics and universities where the subjects offered bear little relationship to current or prospective manpower needs.

17. As regards faulty technology, the Africa region is littered with expensive equipment either still in the original crates or were installed with disastrous effects.

18. In regard to linkages, the extreme dependence of industry in the region on imported raw and intermediate materials is widely known. Equally familiar is the problem of underutilization of fixed assets. One reason for this is that macro-projects are often conceived, designed and constructed without forward linkages which are assumed to occur naturally rather than as the outcome of deliberate planning. For example, farm-to-market roads sometimes fail because other components in the production structure or incentive system have been overlooked.

19. Examples of what may seem to be white elephants include artisanal industrial training facilities, equipped with valuable and essential equipment, which operate at very low levels or face closure for lack of demand as well as railway workshops set up to produce spare parts, implements and tools which otherwise operate at low levels or face closure for the same reasons. In many cases, adequate demand exists, but it is tied to foreign affiliates and suppliers of foreign firms. In most cases, these firms have not offered to help improve the product of the local suppliers. They have simply starved local suppliers of market outlets.

20. Attention has also been drawn to the unfamiliarity of government agencies with the structure of minimum basic engineering facilities. As many country studies show, serious gaps occur in this structure. Similarly, policy-makers and planners are unfamiliar with the structure of the basic intermediate materials required for engineering production, and they are equally unconversant with the raw materials and technologies required.

21. All these defects can be overcome in many cases, they call for only imagination and dogged determination. More specifically, they require that governments recognize the consequences of depending on foreign investments in their pursuit of national aims.

22. It is essential that the reasons for this state of affairs be restated in a way that will help clarify rather than confuse basic issues. The following is a summary of the essentials:

(a) The unrealism of African policy-makers and planners in believing that the rest of the world (120 developing countries, plus China, CMEA countries and Mediterranean Europe) can reasonably expect to obtain factor input supplies from 25 developed (OECD) countries (which, in general, plan domestic factor input production to meet their own current and anticipated needs), without astronomical increases in the unit import prices of such factor inputs;

(b) The failure to realize that developed countries are bound to take measures to prevent what they consider excessive increases in the domestic prices of factor inputs resulting from excessive external demand, either by insulating the domestic pricing system from such pressures and creating special pricing systems for factor inputs exported to the rest of the world or by adopting measures[6/] to reduce the availability of foreign exchange to the rest of the world;

(c) The failure to recognize and overcome the consequences of competitive increases in exports by the rest of the world to the 25 developed countries in respect of such items as cocoa, coffee, tea, sugar, oils and oilseeds, fibres, timber, spices, petroleum, metallic minerals, manufactures and semi-manufactures;

(d) The failure to appreciate the negative impact of the persistence (or even increase) in enclaves, semi-enclaves and dysfunctional relations in the domestic economy in the sense of wasting foreign exchange resources involved in their creation and in the sense of their failure either to generate additional foreign exchange or to reduce the demand for foreign factor inputs. Special attention is drawn to the effects of white elephants: projects with no productive potential or productive projects that are grossly underutilized or have been rendered inoperative for one reason or another;

(e) The failure to recognize the growing importance of the service sector, especially consultancy services, in the economic and industrial development processes, as well as their increasing unit and aggregate import costs, and the failure to take determined and concerted measures to develop such services locally.

Africa's external trade and external debt

23. Given the structure of North/South trade relations, the commodity terms of trade make debt accumulation inevitable as soon as policy-makers and planners in the third world attempt to increase the rate of development and economic growth of their countries. A further contributory factor is the failure to recognize early enough that the key issue is not repeated demands

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6/ For example, controls over capital investment outflows, restrictions on loans to third world countries, manipulation of commodity management agreements (such as the WFA), pressing for currency devaluation in third world countries.

or pleas, however phrased, for additional foreign exchange, but determined and economical efforts to produce domestic factor inputs relevant in function, large in quantity and of high quality. Both factors have contributed to the situation in Africa today.

24. The future of exports from Africa to the developed domestic-market economy (OECD) countries is even more precarious. It will be significantly affected not only by recent and continuing developments in biotechnology and materials technology in particular, and by the shift to new (frontier) technologies in general, but also by the shift of demand for raw materials by developed domestic-market economy (OECD) countries from the third world to domestic sources, Australia, Canada and the deep seabed. It should be clear that attempts to reduce individual country problems by diversifying the range of products for export to the 25 (OECD) countries merely increases their overall supply, depresses prices and makes commodity management schemes unworkable.

25. These factors will, doubtless, reinforce the foreign exchange difficulties of most African countries which tend to depend indefinitely on only one or two dominant export primary products. Their difficulties are compounded, however. First, transnational corporations dominate and control both the exports and imports of many developing countries. Second, this control is, in several cases, reinforced by the effects of intra-firm trading which greatly facilitates income transfers through administrative pricing.

Flow of external financial resources into Africa and its external debt

26. Trends in foreign private investment flows to Africa offer no encouraging prospects. It is clear from UNCTC and other studies that foreign capital is, in general, moving away from and not towards the Africa region. Even where aggregate foreign capital inflows and outflows remain in balance, only a few countries out of the 50 Member States of the OAU are likely to benefit. In the developed domestic-market economy countries, both government and private enterprise criteria determine which countries and sectors qualify for foreign private investment. These criteria include: stable political situation; favourable investment climate; liberal policies which permit profit-making and repatriation over shorter periods; and large and expanding domestic and

multinational markets. Under these conditions only a few African countries would qualify for significant and sustained inflows of foreign private capital.

27. In addition to the above, it is illusory to believe that vast resources (i.e. spare factor inputs) are available in developed domestic-market economy countries for export to and investment in the 120 developing countries (50 in Africa with a majority in the least developed category), China, the CMEA countries and Mediterranean Europe. Queuing applies not only to purchases financed by trade and loans but also to supplies made available through foreign private investment. Moreover, the terms and conditions are becoming increasingly tight.[7/] Under the present circumstances it is difficult to envisage an appreciable flow of resources into the strategic core sectors and subsectors such as mining, petroleum, intermediate materials (iron and steel, copper, aluminium, lead/zinc, heavy chemicals and petrochemicals), even taking account of the heavy expenditures on infrastructure which many of them will need.

28. In the light of the above, the prospects for most African countries of receiving large foreign private investments are not encouraging. This also applies to technical assistance. It will therefore require significant determination by all parties concerned and persistent negotiations to increase overseas development assistance (ODA) to African countries, especially for the development of domestic factor inputs. African governments must recognize the real scope and dimensions of the looming crisis and enforce control over foreign exchange utilization.

29. The situation can be summed up as follows:

(a) The demand for foreign exchange (generally, it should be noted, for surpluses of a few, international currencies from a small number of trading partners) for the purposes of development and economic growth, is a highly competitive demand stemming largely from the need to acquire foreign industrial factor inputs and services to economic development programmes. The only alternative to imports is the local production of such factor inputs;

7/ The USA, for example, now requires bilateral treaties to protect loans made to and private investments in the third world.

(b) The demand for factor inputs (whether locally produced or imported) tends to bulge over a considerable period of time: the lower the initial level of development and economic growth from which acceleration begins, the longer the bulge persists;

(c) The prospects of increased foreign exchange earnings within the North/South structure of trade in both goods and services (in terms of the same small number of international currencies and trading partners) seem remote for the Africa region with its large number of least developed countries;

(d) Similarly, the prospects of substantial increases in foreign private (venture capital) investment and development assistance in more than perhaps a dozen African countries and for purposes of structural transformation (including the development of core and linkage systems) seem even more remote;

(e) Any solution which fails to place the highest priority on the production of domestic factor inputs will not work. An important consideration here is the role of imported factor inputs in the development of domestic factor inputs.

MEASURES FOR ACTION

General considerations

30. As seen from the foregoing chapter, it now appears obvious that a large part of Africa's external debt represents expenditures on the import of industrial goods and services to sustain the economic development process described above. Experience indicates that success in economic development depends on the level of industrial development. No process of industrialization (worse still an accelerated one) can be initiated without a massive expansion of the industrial raw materials industries and without considerable intra-African trade in such materials.8/

31. If this is not the case, those expenditures will have been irrelevant to the economic development process in general and the industrialization process in particular. In effect, the debt (i.e. foreign exchange to finance imported factor inputs) is still to come along with the bulge.

8/ Without such trade, the complementarity of raw materials essential to diversifying output cannot be achieved!

32. It is also not sufficient for expenditures to be incurred on the expansion of university, polytechnic and technical secondary school education and training, if (i) these fail to include areas of specialization required for the development of core industries and its linkage system (such as materials, engineering design, machine building, machine tools, plant design and construction, and large-scale civil engineering), and if (ii) the teaching/learning process still remains isolated from the actual environment and process of manufacturing.

33. Similarly, expenditures on transport and communications which fail to link raw materials with industrial production or industrial production with domestic, and later multinational, markets are not fully relevant to accelerated economic and industrial development. The mere fact of expenditures, even of their allocation by sectors, reveals little.

34. The numerous country studies and field missions undertaken by UNIDO and ECA have highlighted the main weaknesses. These include:

(a) The absence of core industrial projects as well as of deliberately planned and realized linkages;

(b) The existence of unproductive or underutilized installed industrial plants. The closure of some often leads to the closure of others. Closures follow persistent underutilization which is itself due to the choice of technology or the failure to plan and realize linkages;

(c) Extreme dependence on imported factor inputs from developed domestic market economy countries. The most obvious of which are: raw and intermediate materials;9/ energy; entrepreneurship and management; experienced middle level supervisors and operators; spare parts, implements and tools; and services;

(d) The declining trend in the flow of foreign investment capital and ODA resources;

9/ These include cast-iron shape castings; S.G. iron shape castings; pearlitic malleable iron castings; brass shape castings; mild steel section; electrode quality carbon steel sections; hardening and tempering quality carbon steel sections; carbon, carbon manganese and silico-manganese quality spring steel; carbon tool steels; case hardening quality carbon sulphur steel; mild steel plates and sheets; hot crossed rolled steel (for agricultural discs production). See also Section 1.3 and Table 3 of Industrial Development Trends and Policy Options (ID/WG.439/2).

(e) The absence of important components of basic engineering facilities (foundry, forging, heat treatment, machining, tool room, galvanizing, phosphating and electroplating, etc., repair and maintenance).10/ The absence of such components stifles the local production of parts, components, implements and tools;

(f) Marked deficiencies in institutional infrastructure including failures in interdepartmental co-operation; neglect of reform of public enterprise associated with great dependence on foreign private enterprise and TNCs; inadequate consultations with private sector;

(g) Underdeveloped (or unsuitable) production centres such as railway workshops accompanied by underutilization of existing valuable equipment;

(h) The concentration on easy import substitution involving capital intensive consumer durables for assembly or capital equipment for production of consumer goods;

(i) Neglect of measures to expand the domestic market base (in economies in which no more than 20 per cent of the population make habitual use of money for day-to-day purposes);

(j) Insufficient measures for promoting economic co-operation which is often considered secondary to rather than instrumental in the solution of national development problems.

35. The list of policy issues requiring reform, factor inputs requiring deliberately planned production and institutional deficiencies needing improvement is a long one. No amount of foreign exchange can, by itself, bring about reforms and repairs or lead to dynamic integrated socio-economic change.

Programme of action

Policy and institutional measures

36. In the light of the preceding analysis, the programme of action would have to address the problems on a series of levels. These would extend from the policy and institutional measures through the role of public enterprises and transnational corporations to the local production of factor inputs. These measures would have to be complemented by policy and structural adjustments as well as international measures.

10/ See project description for Engineering Industry Development Programme (Preliminary document for field mission) prepared by A.K. Mitra, ECA, Addis Ababa, 18 March 1980, p.25.

37. Measures under this heading would include the accelerated development of the industrial sector as a means of progressively producing local substitutes for imported factor inputs to economic development schemes. This would involve:

(a) Identifying core (motor) industrial sectors and their linkage systems. A great deal of work has already been done, within the framework of the Industrial Development Decade for Africa;11/

(b) Building up national capability in planning and designing core industrial projects along with their linkages with other sectors, especially agriculture;

(c) Forcing the development of a data and information base essential to restructuring the domestic economy. This will include, e.g. national income and expenditure surveys; inventories of scarce factor inputs; industrial output trends; the balance of payments on the services account; data on MVA, particularly relating to core industries. National survey data are essential to developing policies for domestic and external market development as well as planning linkages;

(d) Improving the professionalism and sense of commitment of ministries and agencies involved in the industrialization process, such as those concerned with industry, planning, agriculture, education, transport and communications, labour, natural resources and finance, as well as development banks and corporations and support service institutions. Equally important will be efforts to compel such ministries and agencies to co-operate with each other in the interest of national survival;

(e) Improving the professionalism, sense of commitment, freedom to innovate, etc., of local public and private enterprises and R & D institutions;

(f) Undertaking reviews of economic co-operation concepts and institutional arrangements. Economic co-operation arrangements (even the most recent) have not given high priority to the production of and trade in raw materials, intermediates, nor to such capital goods as equipment for transport and communications, agriculture, water, mining and other natural resources; energy, building and construction, especially the joint production of standardized parts;

(g) Reducing the involvement and impact of foreign private enterprises on the attainment of the purposes and targets of these arrangements, and promoting the establishment of African multinational enterprises for this purpose;

11/ See, for example, A Programme for the Industrial Development Decade: Initial Integrated Industrial Promotion Programme at the Subregion Level (ID/CONF.5/CRP.1 of 29 June 1984, Annexes 2-5 and, in particular, Annex 6.

(h) Reviewing policies, priorities, criteria and control mechanisms for the allocation of resources to factor input imports. Establishing, for example, the priority to be given to the local production of gin vis-a-vis the local production of spare parts, fertilizers or agricultural machinery.

38. The eight areas of action above do not constitute an exhaustive list of policy and institutional measures that need to be taken. However, if policy-makers and planners back away from facing up to the challenges they represent, little may be expected either of the Lagos Plan of Action and the IDDA or of efforts to solve the present and future debt problems.

Public enterprises and Transnational Corporations (TNCs)

39. Policy-makers and planners will have to adopt measures to their public enterprises to make them more effective or face the problem of relying on foreign transnational corporations. They will also have to re-design public enterprises so that they fit contemporary realities in Africa and special performance criteria need to be devised. In most African countries, it is essential to have public enterprises which:

(a) Help to generate skilled manpower;
(b) Provide vital intrasectoral or intersectoral linkages;
(c) Make meaningful contributions to R & D; and
(d) Help to organize and assist medium- and small-scale indigenous enterprises within the respective sector or subsector.

40. As for the transnational corporation, policy-makers and planners must soon determine:

(a) The role they really envisage foreign enterprises, especially TNCs, playing in national and multinational development and economic growth, together with the real terms and genuine effect;

(b) The period during which they intend to entrust foreign TNCs with specific critical roles in the process of structural transformation, such as the development of indigenous factor input supplies to meet national needs;

(c) The successors or alternatives they intend to rely on and the steps they will take to build up these alternatives or successors.

Local production of factor inputs

41. Since it has been argued that the main cause of Africa's external debt is its extreme dependence on imported factor inputs as well as its investments in unproductive and low capacity utilization projects, it would be worthwhile considering some measures to remedy the situation. It would seem reasonable to focus such measures on accelerated industrialization which will, in the long term, contribute greatly to solving the debt problems. The measures to be taken would need to accord priority to the development of entrepreneurs; managers; manpower for procurement, production and distribution; complementary raw and intermediate materials (of which energy is a very important component); equipment, spares, implements, tools, instruments; technology (not embodied in persons or in equipment); physical and institutional infrastructure; services; intra-African co-operation; and the expansion of domestic and multinational markets.

42. Since particular significance is attributed here to the rate of factor inputs supply in respect of debt creation, thought must be given to accelerating the production of indigenous factor inputs on a national, subregional or regional basis. In the following paragraphs, attention is focused on those categories and aspects of factor inputs that are considered critical to the industrialization process. These are conceived mainly in terms of the core projects and the linkage systems which policy-makers and planners have identified.

Human resources

43. Human resources constitute the first, largest and most crucial factor input. Attention is drawn to several sub-groups:

(a) Policy-makers and planners and other principal actors

Measures to enhance capabilities for policy and decision making would include the organization of intensive audio-visual courses and highly specific study visits to familiarize such persons with such aspects as the physiology of industrial production (including core industries and their linkages), factor input supplies, procurement, marketing and distribution and support services. Planners in particular need to be introduced to new techniques.

(b) Entrepreneurs

The development of local entrepreneurs is essential if the external dependence of African countries on this important category of industrial manpower is to be reduced. Even in a small country fairly well-endowed with natural resources, it can safely be assumed that industrial entrepreneurs must number many tens of thousands. They would range from state enterprises in the natural resources/industrial raw materials field, to subcontractors producing parts and components for vehicles or machines, to small-scale enterprises producing such items as implements, tools, nails, screws, bolts, belts and small generators. Whilst a few hundreds or even thousands of foreigners may be induced to take up the entrepreneurial burden, success will depend on local entrepreneurs in a broad variety of sectors and locations. Special policy measures and appropriate incentive schemes would have to be adopted.

(c) Management

Measures required to enhance the development of managerial capabilities would include improving programmes and facilities for the education and training of managers that take African realities into full consideration. This is important since it is not often fully understood how much management is related to history, culture and technology (material and social). In most African countries, current programmes are based on foreign models.

Services

44. At intervals throughout this paper, attention has been drawn to the growing service imports which restricts the supply of foreign exchange needed to pay for imports of other factor inputs. Thus, African governments urgently need to:

(a) Review trends in the volume and composition of service imports;

(b) Hold consultations with public enterprises, selected foreign private enterprises and selected domestic private enterprises on their requirements for, and experience of, consultancy services in regard, in particular, to the implementation of core linkage projects;

(c) Hold consultations with indigenous consultancy organizations on methods for and their role in meeting those needs;

(d) Mobilize the co-operation of other third world countries (especially newly industrializing countries) in the supply of consultancy services and in the development of local consultancy capabilities;

(e) Consider measures for developing local and multinational substitutes for other imported services other than consultancy services.

Raw and intermediate materials

45. The measures which African policy-makers and planners need to take include the following:

(a) Formulation of policies and programmes to deal with raw and intermediate materials production, trade and procurement;

(b) Production of an industrial map of Africa or national and subregional atlases, however rough, which would provide basic information on the possibilities of increasing material complementarities through production and trade;

(c) Establishment of bilateral or multilateral working groups to examine the feasibility of joint production, transportation and trade by barter or other arrangements which require minimum use of international currencies.

Intra-African co-operation

46. African governments urgently need to allocate financial and human resources to the intensification of intra-African industrial co-operation, within the framework of the Industrial Development Decade for Africa, especially in the development of strategic core industries to serve the needs of the economies of a subregion or group of countries. This would call for the establishment of African multinational enterprises and clearing houses in priority strategic core industrial subsectors. In this regard, there appears to be a need for the preparation of guidelines, in the form of a "model framework", for the establishment of these multinational enterprises and trading companies.

47. In connection with the above, the African Industrial Development Fund should be strengthened and consideration given to upgrading it into an African Solidarity Fund for Industry, as called for in the Lagos Plan of Action and the programme for the Decade. This would be used not only to finance pre-investment studies but also to provide credits and guarantees, especially for multinational projects. It would also help to reinforce the efforts being taken at the national level through the establishment of industrial development banks and at the regional/subregional level through the African Development Bank and subregional development banks.

Policy and structural adjustments

48. Decision-makers would need to undertake economic policy and structural adjustments related, in particular, to:

(a) More effective identification and planning of the nation's foreign exchange requirements for essential industrial commodities with a view to reducing wastage. This would include proposals for obtaining essential foreign exchange and investment and the reduction of external debt through international negotiations, domestic substitution of imported factor inputs and improved management of the economy;

(b) Criteria for identifying African foreign exchange requirements in the short- and medium-term, including essential foreign investment and exchange requirements of industry;

(c) National procurement procedures with a view to streamlining existing practices and strengthening existing arrangements at the regional or subregional level, including joint negotiations, importation and distribution of major industrial and other commodities;

(d) Rehabilitation of potentially viable projects and improvement of their management, production, operational efficiency and profitability, including readjustment of original contractual (especially financial and management) arrangements, as well as opening up new markets for their products and finding new sources of raw material supplies, especially from local resources;

(e) National resource allocations with a view to according priority to accelerated industrial growth in African countries closely tied with the other economic sectors, especially the agricultural and construction sectors.

Measures at the international level

49. Policy and operational measures need to be taken so as to readjust the pattern and structure of external investment and ODA flows into the national economy. Every care should be taken to ensure that these resources are directed towards those projects would contribute to the local production of industrial inputs, thus helping to reduce the national external debt.

50. In that connection, existing arrangements should be reinforced and new ones established for a more effective utilization of the principal forms of industrial finance, i.e. multilateral grants and loans, bilateral grants and loans, commercial bank loan capital, direct foreign investment, and trade credit. This would contribute to the progressive reversal of the present situation in which a number of industrial projects represent a constant drain on meagre foreign exchange resources.